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Blue energy... *love it!*

Gaz Métropolitain 2001 Annual Report



Gaz Métropolitain

Connecting with the future

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A Good Business Sense...

The women and men of Gaz Métropolitain put the **customer first**. To them, every **customer contact** is a **business opportunity**. In collaboration with business partners, they strive to offer **diversified**, **competitive** and **high-quality products** and **services** that meet the needs of present and potential customers. Gaz Métropolitain and its **business partners** guarantee the same **quality standards** to their customers. Each employee and business partner is aware of the need and proud to be an **ambassador** for the company, which is accomplished through **personalized**, **simple**, **rapid** and efficient customer service on a daily basis. For each business process, they know their **role** and expected **contribution**, and recognize the need for organizational **flexibility** to better respond to market demands.

Employees and business partners experience a **sense of accomplishment** through a **satisfied**, **loyal** and **growing clientele**. This is the hallmark of **good business** sense, and this is what makes Gaz Métropolitain a source of enrichment not only for investors, but for its employees and business partners... a business with good business sense, connecting with the future.

Winter... *love it!*

Especially when it's nice and warm inside. All natural gas heating systems have one feature in common: they provide exceptional **comfort**. The natural gas fireplace creates the same ambiance as a wood fire but distributes **heat** much **more efficiently**, without any ashes, and is cleaner for the environment. Other uses like heated floors and towel warmers show the **versatility** of natural gas. Gaz Métropolitain and its business partners can give **sound advice** and provide the appropriate solutions and services.





Delicates... *love it!*

Delicate and **rugged** are not mutually exclusive. For household chores, you can be as delicate or powerful as you want when you use natural gas that combines **superior performance** and **flexible use**. You can avoid crinkled clothes with a gas dryer because it reaches its maximum temperature **more quickly** than an electric dryer. A natural gas water heater can heat twice as quickly as an electric water heater. Gaz Métropolitain and its business partners can show they are able to offer a complete **range of diversified products** for superior **comfort** and **well-being**.



Dad's cooking . . . *love it!*

Everything tastes better when cooked with natural gas. In the kitchen, like anywhere else, in a **multitude** of residential, commercial and industrial **applications**, natural gas is **versatile** and **efficient**. It's quick to use, easy to control and precise. Every day, at home and at work, in shops and businesses, in large urban centers and out in the countryside, natural gas is synonymous with **performance** and **quality of life**.

Peace of mind... *love it!*

Why compromise? For businesses and institutions that require **high-performance** equipment, the benefits of natural gas stand out every day. Whether it's a question of heating buildings or water, you can count on the **capacity** and **force** of natural gas equipment to **meet** the **repeated needs** of a large number of users. The best decisions have to be made. Gaz Métropolitain and its business partners can help to make the most **appropriate** choices.





School . . . *love it!*

It isn't hard to understand. Customer and public **safety** as well as the **reliability** of the distribution system are **absolute priorities** for Gaz Métropolitain. Safety and dependability go hand in hand with efficiency and performance: for centralized applications where energy efficiency is of paramount importance, natural gas appliances provide greater **efficiency at lower cost**. We've done our homework at Gaz Métropolitain.

Fine dining... *love it!*

Every good chef knows. Rush hour in a restaurant is the ultimate test for the kitchen, because all of the gas burners are on. Their **action** is **direct**, and the heat is **precise**, **instantaneous** and **easy to control**. The natural gas hot water booster increases the performance of the dishwasher by guaranteeing **virtually unlimited supply** of hot water, a good example of **high-performance innovative technology** in a field where the superiority of natural gas has long been recognized. At Gaz Métropolitain, we are constantly looking for **new ideas** to improve **energy efficiency**.




Source d'avenir
Gaz Métropolitain
10529
Source d'avenir
Gaz Métropolitain

Serving our customers... *love it!*

Whatever your energy needs, Gaz Métropolitain and its business partners are able to rapidly provide you with the **help** and **advice** you need to find **sustainable and profitable solutions** for your energy needs. Gaz Métropolitain's goal is simple: an **unequalled level** of **efficiency, innovation, advice, dependability** and **comfort**... Ask them questions. They will find the right answers.



Mission

Gaz Métropolitain transports and distributes natural gas in Québec and in the northeastern portion of North America. It also sells goods and services ancillary to its main activity. It makes use of its know-how to pursue activities that are related or similar to its core business.

Objective

Gaz Métropolitain's financial objective is to provide its Partners with a stable, predictable return, accompanied by growth in value over the years. From a business perspective, the Partnership intends to provide its customers with high-quality energy services at the lowest possible cost, through policies and programs aimed at motivating its employees and business partners.

The Partnership

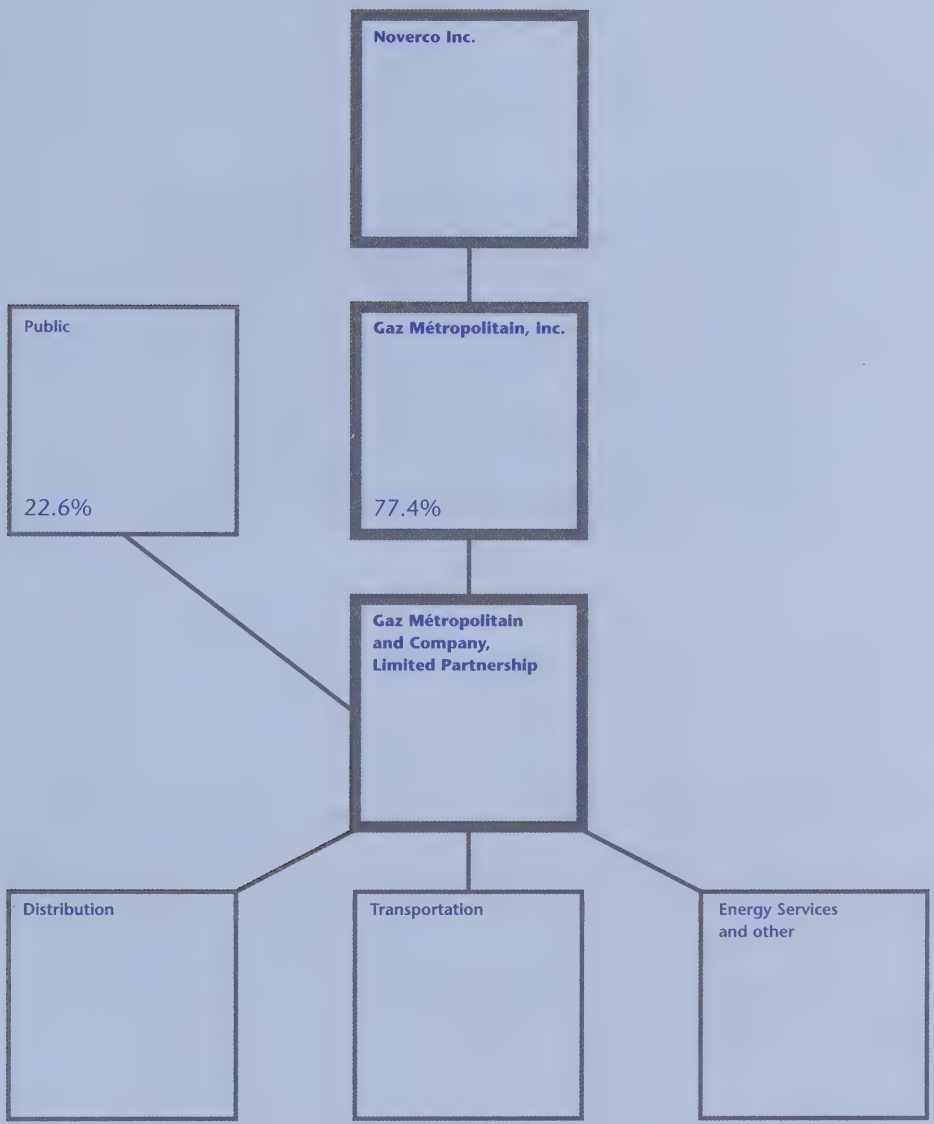
Gaz Métropolitain's core business is the distribution of natural gas. The Partnership delivers approximately 97% of the natural gas consumed in Québec. Vermont Gas Systems, Inc., a wholly-owned subsidiary, is the sole gas distributor in Vermont.

Gaz Métropolitain also owns significant financial interests in two natural gas transportation companies, including a 50% interest in TQM Pipeline and Company, Limited Partnership, which operates a gas pipeline that connects upstream with that of TransCanada PipeLines and downstream with that of Portland Natural Gas Transmission System. The pipeline owned by PNGTS, in which Gaz Métropolitain holds a 20.7% interest, originates at the Québec border and extends to the suburbs of Boston. In addition, a wholly-owned subsidiary of the Partnership operates two gas pipelines that cross the Ontario border to supply Gaz Métropolitain's distribution system in northwestern Québec.

In addition to these activities and major ownership interests, the Partnership sells goods and services, through subsidiaries and affiliates, in the energy related business, and in water, wastewater and fibre optics networks.

GAZ MÉTROPOLITAIN CORPORATE STRUCTURE (SCHEMATIC VERSION)

As at September 30, 2001



Gaz Métropolitain and Company, Limited Partnership
Vermont Gas Systems 100%

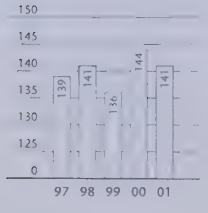
TQM Pipeline 50%
Portland Natural Gas Transmission System 20.7%
Cartier Pipeline 50%
Champion Pipe Line 100%

Gaz Métropolitain Plus 100%
Gaz Métropolitain Plus Finance 100%
Climatisation et Chauffage Urbains de Montréal 100%
Consulgaz 100%
Sogener 100%
Climtech Inc. 100%
Sofame Technologies 34.45%
Sofame Europe 33.3%
TelDig Systems 50%
Option Gaz 50%
Aqua Data 50%
Aqua-Rehab 50%
Cable VDN 12.2%

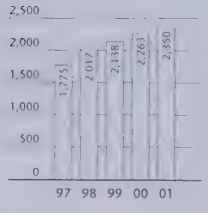
Years ended September 30	2001	2000
Consolidated Financial Information (in millions of dollars)		
Revenues	$ 2,068	$ 1,634
Gross margin	$ 542	$ 533
Partners' income	$ 141	$ 144
Total assets	$ 2,350	$ 2,263
Long-term debt including current portions	$ 1,270	$ 1,193
Partners' equity	$ 812	$ 806
Capital expenditures and deferred charges	$ 253	$ 139
Authorized annual return on Partners' equity attributed to gas distribution in Québec	10.38%	9.72%
Credit ratings: (1)		
Long-term bonds (S&P / DBRS)	A/A	A+/A
Commercial paper (S&P / DBRS)	A-1(low)/ R-1(low)	A-1/ R-1(low)
Per Unit Data (in dollars)		
Partners' income	$ 1.28	$ 1.30
Operating cash flows (including working capital)	$ 2.92	$ 1.72
Distributions	$ 1.27	$ 1.24
Partners' equity (as at September 30)	$ 7.35	$ 7.30
Number of units outstanding (as at September 30 – in millions)	110.5	110.5
Approximate number of Partners (2) (as at September 15)	26,900	26,900
Unit trading:		
High	$ 16.90	$ 17.00
Low	$ 14.80	$ 13.40
Close – Toronto Stock Exchange	$ 16.35	$ 15.60
Public ownership in the Partnership (as at September 30)	22.6%	22.6%
Consolidated Operating Data (2)		
DISTRIBUTION SECTOR		
Gas deliveries:		
In millions of cubic meters (10^6m^3)	5,639	6,348
In billions of cubic feet (Bcf)	199	224
Length of pipelines (km)	9,852	9,603

(1) The S&P 2000 credit ratings were determined by CBRS, which was acquired by S&P in October 2000. The 2001 credit ratings have been harmonized in accordance with S&P standards.
(2) Unaudited data.

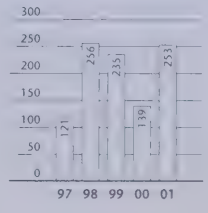
Partners' income
(in millions of dollars)



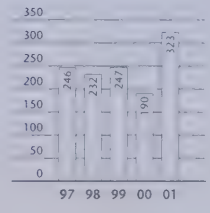
Total assets
(in millions of dollars)



Capital expenditures and deferred charges
(in millions of dollars)



Cash flows provided by operations
(in millions of dollars)





Robert Parizeau
Chairman of the Board

Robert Tessier
President and Chief Executive Officer

A good year for Partners...

Corporate performance is ultimately judged by the return it generates for its owners and, in this respect, the Partners of Gaz Métropolitain were well served last year with a total return of 11.3% between September 30, 2000 and 2001. They received distributions of $1.27 per unit and, in addition, the value of the unit increased by $0.75, from $15.60 to $16.35. During the same period, the main Canadian stock market index fell by 33.9% and, in general, the performance of foreign markets was just as negative. Gaz Métropolitain once again proved to be a blue-chip for investors with a long-term strategy and, for the others, a refuge in depressed stock markets.

... a tough year for customers...

However, last year was extremely difficult for our customers. Accustomed to average gas prices in the order of $2.00/GJ over the past ten years, customers were faced with staggering price spikes, which reached an unprecedented high of $12.90/GJ for gas from Alberta last January. The same phenomenon prevailed throughout North America. Gaz Métropolitain, as a responsible distributor, had warned customers of the coming shock, over which it had no control. They still found it difficult to accept increases in their energy bills which, when January 2001 is compared to January 2000, were approximately 50% for a residential customer, 90% for a commercial customer and more than 100% for an industrial customer that would have used system gas.

Following Gaz Métropolitain's advice, residential and commercial customers took the steps required to save energy, which primarily explains most of the 3% decrease in deliveries to these markets compared to the preceding fiscal year, taking temperatures into account. Weaker economic growth than forecast was also undoubtedly a contributing factor. However, it should be remembered that deliveries in these markets reached record highs during the 2000 fiscal year.

The impact of high gas prices and, to a lesser extent, the economic slowdown, was particularly severe in the industrial market. These customers represented 60% (of which 22% for interruptible service) of deliveries made during the 2000 fiscal year. By definition, an interruptible service customer can switch from natural gas to another form of energy depending on the competitive situation and its contractual obligations with Gaz Métropolitain. Deliveries in this market fell 41% compared to the preceding year. Firm service deliveries were down by 8% as certain customers either cut or even shut down production. The Partnership's total deliveries, including Vermont Gas, are down by 11.2% from the 2000 fiscal year.

...and a challenge-filled year for management and employees

As a result of the foregoing situation, demands were particularly heavy on Customer Service and Public Relations personnel during the past year, who were called upon to explain that, as a distributor, Gaz Métropolitain sells natural gas at cost and earns its profit essentially from its distribution service. They also widely communicated the message that, in the view of a majority of industry specialists, the abnormally high natural gas prices were due to a combination of various temporary factors, including insufficient deliverability for a colder winter than in previous years. Because of their efforts, and the reputation that Gaz Métropolitain has developed over the years, the telephone response quality and overall customer satisfaction indicators, which had sagged last winter, have come back to traditional levels.

If lower deliveries have had little impact on income, it is primarily due to the foresight and initiatives with respect to gas supply, i.e. the transportation of natural gas from the supply source and the storage required to meet peak period demand. Because of their experience and network of contacts, the personnel responsible for this activity were able to conclude transactions that limited the shortfall caused by deliveries that were lower than forecasted at the beginning of the year.

In spite of this outstanding effort, and the exceptional performance of all of Gaz Métropolitain's personnel who adapted to the difficult situation that confronted the Partnership and its customers, the gas distribution activity was unable to derive any benefit from the performance incentive mechanism that became effective in 2001. Nevertheless, the Partnership earned a rate of return equal to the authorized base rate of return, in spite of an increase in the value of remunerated assets.

Financial Results

Distribution activities in Québec and Vermont generated income of $134.6 million, which is only $0.6 million less than the preceding fiscal year. Income earned by the transportation activity, essentially financial interests, is $10.3 million, down by $1.7 million from the preceding year. This negative variance is due to an increase in depreciation. The energy services and other activities recorded a loss of $1.4 million compared to income of $0.5 million in 2000. Operating with its own management team for less than one year, this sector incurred significant non-recurring expenses to organize, downsize and integrate a certain number of entities in the group in order to reduce costs and maximize synergies.

The financial results for the various sectors and the unallocated development costs generated Partners' income of $141.2 million, i.e. $1.28 per unit, compared to $143.7 million, or $1.30 per unit, for the 2000 fiscal year. The Partners will have noted that the Partnership adhered to its policy of distributing virtually all income.

Initiatives for Change

At the same time last year, we summarized a number of initiatives aimed at the continuing pursuit of excellence throughout Gaz Métropolitain. Here is a progress report on these medium-term objectives:

Quality Initiative

The Total Quality initiative has made important progress as a result of setting up a "corporate" team composed of blue-collar and white-collar workers, union representatives, professionals and management personnel of the Partnership. This team carried out an initial assignment and submitted detailed recommendations on the responsibilities of every individual throughout the organization for making Total Quality a success and achieving, in 2003, the objective of 500 points measured by the QUALI*meter* of the Mouvement québécois de la qualité. This instrument measures the overall performance of an organization.

Enterprise Resource Planning System

Launched in September 2000, this project involves the implementation of a modern information management system that will make it possible to integrate all business processes and, thereby, provide better service to customers and create greater internal efficiency. It will be implemented in three phases. Phase 1, which covered administrative services, was completed on October 1, 2001, and Phase 2, which covers system maintenance, will be in operation in the spring 2002. Phase 3, which is the most important and the most complex because it deals with customer information and relations, is underway and will take more than one year to implement.

Partnering

Initiatives such as Total Quality and the Enterprise Resource Planning System can only succeed if they receive the full support of all employees and the unions. It can be said that union leaders now share our business vision, as represented in the QUALI*meter* logo, i.e. a triangle in which customers, investors and employees each occupy one of the corners.

Personnel Reductions

As a result, among other things, of the partnering approach, the personnel reduction process through early retirements and voluntary termination has produced the desired results to date, with approximately 100 positions (out of about 1,300) having been eliminated during the past year and another 50 to be eliminated by the end of the current fiscal year.

Business Development

Apart from normal development in the various sectors, the Partnership is aiming to construct a gas pipeline that would give it access to natural gas produced in the rapidly growing Atlantic coast basin. During the past fiscal year, Enbridge, one of the majors in the transportation and distribution industry, became a partner in the project, which is known as Cartier. However, two stumbling blocks have arisen since the beginning of 2001. Firstly, the producers on whom Cartier was counting were not as successful as expected in developing their reserves by the set date. In addition, the transporter of the natural gas produced in the region appears to prefer moving the gas to the United States rather than to central Canada and is no longer prepared to construct an extension of its system from Fredericton, New Brunswick to the Québec border where it would connect with the Cartier pipeline. The Cartier Project will continue to seek the necessary natural gas supply commitments and to clarify the terms under which such gas would be transported to the Project.

Gaz Métropolitain also intends to closely monitor the development of thermal electricity production in order to meet the forecast additional requirements during the decade. As is well known, natural gas is normally the energy of choice in such situations.

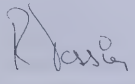
Outlook for 2002 Fiscal Year

The current fiscal year is still characterized by a basically unfavourable competitive situation for natural gas in the industrial market. It is roughly neutral in the residential market and favourable in the commercial market. However, since the terrorist attacks against the United States, the economic slowdown that was already underway is verging on recession. It would therefore be unwise to be overly optimistic about what the 2002 fiscal year has in store, in particular because the potential consequences of the war on terrorism are still unknown. Nevertheless, in its meeting today, the Board of Directors maintained the income distribution to Partners on January 1, 2002 at $0.32 per unit.

Gaz Métropolitain, inc.
in its capacity as General Partner
November 15, 2001



Robert Parizeau
Chairman of the Board



Robert Tessier
President and Chief Executive Officer



1. Luc Sicotte Vice President and Chief Financial Officer **2. André Boulanger** Vice President, Sales, Marketing and Customer Services **3. René Bédard** Corporate Secretary **4. Pierre Despars** Vice President, Corporate and Legal Affairs **5. Sophie Brochu** Vice President, Business Development and Gas Supply **6. Jacques Charron** Vice President, Operations **7. Stéphane Bertrand** Vice President, Communications, Public and Governmental Affairs **8. Serge Régnier** Vice President, Human Resources and Quality

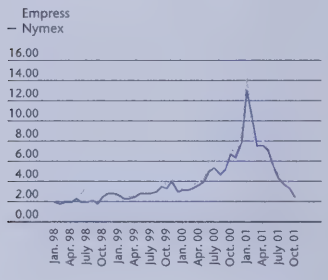
Distribution

External Environment

Three factors beyond the Partnership's control have an impact on deliveries: the economic growth rate, temperatures and competing energies prices. While the economic slowdown in North America during the 2001 fiscal year certainly did not help the Partnership, it was the severe spike in gas prices that hurt deliveries the most.

For instance, the price of gas at the Alberta border increased from $6.61/gigajoule in October 2000, a historically high level, to $12.90/gigajoule in January 2001, with the result that the cost of system gas billed to customers soared 142% on average over the preceding winter. Tight supply due to reduced production capacity in North America and lower than normal storage levels, coupled with anticipated growth in demand, particularly in the United States, explains the spike in prices. Gas prices have since fallen back to less speculative levels following significant increases in production and a decrease in demand. In September 2001, the price of natural gas at the Alberta border was $3.34/ gigajoule. The price of system gas, which is adjusted every month based on historical and prospective factors, was $4.48/gigajoule.

Natural gas spot price
($Can./Gj)



The price of West Texas Intermediate, the reference crude oil, fell 20% during the past fiscal year from US$32.94 a barrel in October 2000 to US$26.49 a barrel last September, which meant that customers capable of using either natural gas or fuel oil opted for the latter. This was what happened in the industrial market. The competitive position of natural gas in other markets was also difficult, or even unfavourable, during the first three quarters of the 2001 fiscal year, with the exception of the residential market in Vermont where electricity, the main competition, is still much more expensive than natural gas.

Since the summer, natural gas has regained a significant competitive advantage in relation to regular-priced electricity in the commercial market, which includes small and medium-size businesses as well as institutions, such as hospitals and schools. In the residential market, natural gas is on an even footing with regular-priced electricity, the main competition. In the industrial market, where no. 6 fuel oil is generally the energy alternative, the competitive situation remains difficult, although the gap in prices has narrowed.

Gas Supply

The staggering increase in natural gas prices resulted in a substantial drop in consumption, particularly by industrial customers. Extremely close monitoring of demand enabled the Partnership to quickly identify the trend and revise delivery forecasts downward right at the start of the winter season. Excess transportation capacity was sold on the secondary market at opportune times, thereby minimizing the impact on earnings of lower consumption. The shortfall was also reduced by what have proven since then, to be particularly astute transactions in the storage market.

During the past fiscal year, 54% of the Partnership's deliveries in Québec were purchased directly by large industrial customers and a number of commercial customers from suppliers of their own choosing. The Partnership used certain financial instruments to reduce the impact of price increases on system gas customers. In addition, a portfolio strategy was developed for the transportation of natural gas to Gaz Métropolitain's franchise in order to diversify geographic sources as well as transportation and storage means, and to vary contract maturities.

A significant portion of the transportation contracts on TransCanada PipeLines will soon expire, which will allow the Partnership and its customers to look at alternative supply sources. At present, TCPL transports all of the gas delivered by Gaz Métropolitain. The project to connect the Partnership's distribution infrastructures to the Sable Island gas basin off Nova Scotia is in line with this diversification strategy.

Deliveries

Deliveries amounted to 5,639 million cubic meters in 2001, compared to 6,348 million the preceding year, a decrease of 11.2%. If temperatures had been normal for the two years, the decrease would have been 13.5%. Further details are provided under Management's Discussion and Analysis.

Customer Service

Gaz Métropolitain's Total Quality initiative requires a business-oriented culture that puts customers at the heart of the Partnership's business decisions. The customer-contact centre, service technician dispatch activities, meter reading, and billing, credit and accounts receivable management are now integrated under Customer Service.

Demands on the customer-contact centre were particularly heavy this past winter with more than double the number of calls because of the increase in the price of natural gas. Telephone response time was affected, in spite of the implementation of extraordinary measures to deal with the situation that arose during the installation of new equipment and systems to improve service quality.

Marketing

Natural gas is now greatly appreciated by a knowledgeable public. Consumers associate it with comfort and quality of life. In particular, they appreciate the related appliances such as gas fireplaces and ranges. This is the result of the Partnership's marketing efforts over the past few years in the residential market. Whether it be through TV sponsorships, participation in various culinary and home expositions, advertising in major dailies, weeklies and specialized magazines, or via one of the most innovative Internet sites, every year the Partnership gains a little more ground in the mid and high-end residential market.

In 2001, the Partnership continued its promotional activities. However, last winter's high gas prices required blitz campaigns to inform customers about the situation and reassure them about the prospects for the future. To do this, the Partnership included inserts with customer billings, made specific mailings, provided explanatory pages on its Internet site and issued press releases. In addition, sales representatives proposed various energy efficiency solutions to both their residential and commercial customers to help them minimize the impact of the crisis. The Partnership promoted specific programs to help customers save by reducing consumption, and new programs, with a budget of $3.5 million, have also recently been launched.



At the Montréal National Home Show, Gaz Métropolitain familiarized visitors with a broad range of natural gas appliances. The cooking workshops were one of the activities in greatest demand.

The goal of Gaz Métropolitain's representatives, particularly in the industrial and commercial markets, is to be recognized as professional energy advisors at a time when technologies and markets are becoming increasingly sophisticated. Customers expect it, and the Partnership intends to respond to their expectations.

New Sales

In spite of an unfavourable external environment, 2,200 new residential customers were added to the Partnership's customer base in Québec, primarily in the new homes market. In Vermont, there were almost 1,000 new customers. These figures are down slightly from the preceding year.

New sales in the commercial market, which includes institutions and small businesses, totalled 98 million cubic meters on an annualized basis, compared to 138 million cubic meters the preceding year. The competitive situation of natural gas, real or perceived, coupled with slower economic growth than last year, had an unfavourable impact on new sales in this market.

In the industrial market, 22 new contracts were signed, representing additional deliveries of approximately 41 million cubic meters per year, an increase of 28% over the preceding year. For the most part, these new contracts were for additional firm service load for existing customers.

Operations

Approximately 224 kilometres of new distribution pipelines were constructed in Québec, and 1,952 new customers connected. Vermont Gas connected 1,133 new customers and constructed some 25 kilometres of pipelines.

System safety remains a top priority for the Partnership. Last year, the Partnership started a sectorization program for its system on the Island of Montréal. The system in downtown Montréal was divided into two sectors so that the Partnership could cut off gas supply more quickly in emergency situations. The program will continue over the next few years.





Another preventive measure was implemented so that the Partnership could operate its liquefied natural gas facilities efficiently and safely in the event of an incident. As a result, duplicate control mechanisms now make it possible to also operate the plant from the Partnership's head office.

And lastly, the Partnership is extremely proud of its number-one ranking in a benchmarking exercise performed by the American Gas Association with respect to the quality of pressure regulation on its distribution system.

Human Resources

2001 will be remembered as a very difficult year for Gaz Métropolitain's personnel. The implementation of Phase I of an Enterprise Resource Planning system required a significant contribution from all employees both in terms of planning and managing change as well as training. In addition, the spike in gas prices, with all the consequences that entailed, did not make the job any easier for employees, such as customer service, sales and gas supply personnel, who deal with customers. And lastly, employees were asked to improve performance while keeping costs under control.

Following the announcement of early retirement and voluntary termination programs in October 2000, a number of employees took advantage of them, with the result that approximately 100 positions had been eliminated as of September 30, 2001. Despite this reduction, the Partnership's remaining personnel is to be commended for maintaining operations with the same service quality standards.

The initiative that has been underway for a number of years to create a solid partnership between management and union representatives was reflected in agreements on a number of important issues concerning, in particular, the elimination of positions and work organization, the early retirement program and the utilization of pension fund surpluses.

Défi Excellence

Gaz Métropolitain's Total Quality initiative (Défi Excellence) also provided a partnering opportunity for management and all personnel. A "Corporate Team" was set up and given an initial assignment to make recommendations about measures to be taken to ensure that executives, managers, specialized personnel, unions and other employees all contribute to the quality initiative. After completing this assignment, the Corporate Team, which includes representatives from the above-mentioned groups, intends to make recommendations about how to instil a business-oriented culture among employees.

Gaz Métropolitain can be cited as an example in training matters. The premises occupied by the École de technologie gazière are being expanded to accommodate the ever-growing demand for training, not only for employees but also for fire-fighters, police, public safety personnel and gas technology students.

Regulatory Matters

QUÉBEC

Since October 1, 2000, the Partnership has been operating under a new regulatory framework established for a five-year period and that represents the fruits of an agreement negotiated with various intervenors and approved by the Régie de l'énergie. For the 2001 fiscal year, the base rate of return on equity allocated to the Québec distribution activity was set at 9.60%, in accordance with the automatic adjustment formula that has been used for a number of years and that will continue to apply until 2003. An authorized incentive return of 0.78% was added based on forecast productivity gains for the fiscal year, but could not be attained, primarily because of the drop in deliveries.

On September 27, 2001, the Régie approved the agreement between the intervenors it had recognized and the Partnership with respect to the rates applicable for the fiscal year starting on October 1. The new rates are up by 5.3% as a result of expected deliveries and an increase in transportation and storage rates. For the 2002 fiscal year, the base rate of return on equity allocated to the Québec distribution activity has been set at 9.67%, with an added potential incentive of 0.02% based on forecast productivity gains. The small productivity gains are due to delivery levels attributable to the competitive situation and are in no way a reflection of the organization's performance.

The proposal to unbundle rates was approved by the Régie on March 16, 2001 and became effective on October 1, 2001. From now on, in addition to the cost of gas, invoices will show the costs of each of the transportation, balancing and distribution services supplied by the Partnership. Large companies can now purchase their transportation and balancing services directly from third parties. This opportunity may eventually be offered to all customers.

The Régie also approved amendments to the Partnership's financial derivatives policy, which allows the Partnership to use financial instruments to protect system gas customers against the volatility of gas prices. However, the Partnership's request to provide customers with system gas at a fixed rate was rejected and other solutions are being looked into.

In a decision dated April 12, 2001, the Régie took note of the Partnership's financial results for the 2000 fiscal year and the results in terms of service quality, and approved the sharing of over-earnings, with a $3,024,000 share for the Partnership.

VERMONT

The regulatory framework governing the operations of Vermont Gas is different from the framework for Gaz Métropolitain. It provides for a single rate that includes the commodity, transportation, balancing and distribution. Given the rise in gas prices in 2001, Vermont Gas had to apply for successive rate increases as well as the creation of a temporary deferred charges account in order to amortize the impact on customers. Without an automatic rate adjustment mechanism to reflect the cost of gas, and because rate decisions are not retroactive, Vermont Gas has, until now, had to use derivative instruments to fix the price of system gas, thereby eliminating the risk for the shareholder.

Corporate Affairs

The Partnership implemented Phase I of the Enterprise Resource Planning system on budget and on time. The finance, procurement, maintenance and human resources modules went live on October 1, 2001. The process provided the Partnership with an opportunity to review its business processes in light of best industry practices. Phase II, which includes, among others, the customer service and billing modules, should be completed in March 2003. In March 2002, a sub-phase dealing with the system maintenance module should be completed.



The Partnership continues to strive for improvements in its environmental performance and was successful in obtaining ISO 14001 registration in October 2000. The objective of this international standard is to balance environmental protection and pollution prevention with socio-economic needs. External audits related to the ISO 14001 registration make it possible for interested parties to periodically ensure that the environmental management system is appropriate and is being applied.

Furthermore, in connection with the performance incentive mechanism, $1.9 million was paid into the Energy Efficiency Fund that is managed in collaboration with consumer and environmental protection groups. These funds are in addition to the cost of the various aforementioned energy efficiency programs.

Communications, Public and Governmental Affairs

Because of the higher gas prices, Gaz Métropolitain had to increase its public relations efforts with customers, journalists, provincial and municipal authorities, and employees to keep them adequately informed about the situation.

To strengthen municipal relations, Gaz Métropolitain set up two information sharing committees composed of elected municipal officials from the Fédération des municipalités du Québec in one case and the Union des municipalités du Québec in the other. The committees will contribute to a better understanding of municipal energy supply needs and the promotion of the potential of natural gas in economic development.

Gaz Métropolitain also pursued its commitment to the cultural community with sponsorships of events such as the Sorties du TNM and the Festival international de la chanson de Granby. The Partnership also played an important role with young people. In addition to financial contributions to a number of organizations that focus on issues they face, the Partnership was particularly involved with "Boulot vers..." and Projet 80, two organizations that provide support for young people in their educational or professional endeavours. The involvement of Gaz Métropolitain's personnel in the community is also worthy of mention. Employees do not hesitate to give generously of their time, energy and money for various activities such as the Centraide program, Christmas baskets or mentoring at the École Hochelaga-Maisonneuve. In the regions, more than one hundred community, health and education organizations have been able to count on a contribution from Gaz Métropolitain.

Government Relations

In terms of government relations, the Partnership has submitted system development proposals for five regions in Québec in connection with the new Québec-Canada infrastructure program. The Partnership also wanted to ensure that the governments of Canada, Québec and the Maritimes were fully aware of the Cartier pipeline project and the importance of gaining access to East Coast gas.

Transportation

Gaz Métropolitain's transportation activities basically involve its joint investment with TransCanada PipeLines in TQM Pipeline and Company, Limited Partnership and its 20.7% interest in Portland Natural Gas Transmission System.

With a 572-kilometre system in Québec, TQM transports approximately 65% of the natural gas required by Gaz Métropolitain, with the balance coming directly from the TCPL system. TQM also supplies PNGTS, which originates at the Québec/New Hampshire border and extends to the north of Boston. Total annual volumes transported on TQM are in the order of 4,640 million cubic meters, of which approximately 22% is moved to the United States.

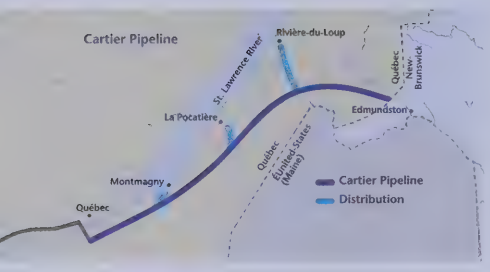
TQM is regulated by the National Energy Board. In addition to a base rate of return on equity, an incentive regime allows the Partnership to retain 50% of its productivity gains. The regime should be extended for five years starting in 2002. Downsizing initiatives already underway will continue.

PNGTS is presently operating at nearly 60% of its capacity, which is in the order of 6 million cubic meters per day. Initial rates, set for three years prior to the start of the pipeline construction, are effective until March 2002. As a result of construction cost overruns, PNGTS recently applied for regulatory approval for increases in the rate base and rates. At present, most of its volumes are transported pursuant to long-term contracts.

The cost overruns for the construction of the PNGTS pipeline resulted in litigation. The largest was settled following an arbitration decision that partially recognized the prime contractor's claim that it was faced with unforeseen weather conditions and environmental requirements. PNGTS will pay, from available cash and future cash flows, an additional US$30.6 million to the prime contractor in accordance with terms agreed upon by the Parties.

This year again, as a result of the Dream House project of the Fondation Les Ailes de la Mode in which Gaz Métropolitain is an active participant, the Centre Immaculée-Conception received $60,000 for the Petit Cirque Gaz Métro. This project is organized for underprivileged children in the Hochelaga-Maisonneuve neighbourhood in Montréal.





Cartier

Gaz Métropolitain and Enbridge, equal partners in the Cartier project, are continuing their efforts to connect the Québec and Ontario gas markets to the Atlantic coast's new production basin. The project requires Maritimes and Northeast Pipeline to construct an extension of its current system between Fredericton and the interconnection with Cartier at the Québec/New Brunswick border, near Edmundston. At the instigation of Cartier, the qualification and rate methodology applicable to the new M&NP installations are the subject of public hearings before the National Energy Board. Cartier is asking the Board to ensure that M&NP's transportation infrastructures which would serve Cartier be treated on an equitable basis in relation to infrastructures that serve the U.S. market. In other respects, demand for natural gas is such that the Atlantic coast reserves cannot respond as quickly as producers would like.

Energy Services and Other Activities

Gaz Métropolitain Plus Limited Partnership is responsible for unregulated energy services. During the 2001 fiscal year, GMPLP began simplifying the organizational structure of the related entities with a view to creating synergies and efficiencies. The financial and administrative operations of the main entities were consolidated. What follows is a summary of the highlights for GMPLP and for certain subsidiaries, joint ventures and financial interest in energy services and other activities.

Gaz Métropolitain Plus Limited Partnership

The core business of GMPLP, a wholly-owned subsidiary of Gaz Métropolitain, is the distribution, maintenance, sale and leasing of heating and air-conditioning equipment. Set up as a separate entity in June 2000, GMPLP's specialized personnel and Certified Partners provide high-quality integrated energy products and services to residential, commercial and industrial customers.

Climatisation et Chauffage Urbains de Montréal, s.e.c.

CCUM produces and distributes steam and hot and chilled water for heating and air conditioning. Some 20 large buildings in downtown Montréal and the Cité du Multimédia use its services. Since 1999, CCUM has invested $5.8 million in its systems. In 2001, CCUM produced and delivered some 548 million pounds of steam to its customers, an increase of 4.4% over the 2000 fiscal year. The operation of hot and chilled water systems commenced last year.

Sofame Technologies

Sofame Technologies, a public company in which Gaz Métropolitain has been a shareholder since 1999, designs, manufactures and markets a range of patented energy-efficient appliances for heating hot water by direct contact with natural gas and heat recovery. Sofame was awarded first prize by Expo-Contech Québec 2001 for its technological innovation in the building trade.

In August 2001, the Fonds de solidarité FTQ acquired a 31% interest in Sofame for a little more than $2 million. This capital injection will allow Sofame to intensify its marketing efforts at a time when energy efficiency and conservation are a top priority for all businesses. At the same time, Gaz Métropolitain converted a convertible debenture and a debt into shares, which increased its interest in Sofame's issued and outstanding common shares to 34.5%.

Cable VDN

The Partnership holds a 12.2% interest in Cable VDN, which owns a 250-kilometre network of fibre optics (or 20,000 kilometres of fibres) on the Island of Montréal. VDN provides cable services and Internet connections primarily to a residential clientele living in apartment buildings. VDN's main competitive advantage in cable service is its ability to offer more channels at less cost. And, as a result of a complete wide band fibre optics network, VDN is responding to the needs of business customers in matters of data transfer and video and voice bands. In addition, VDN's Internet service is four times faster than the competition. VDN is pursuing its development in spite of the current difficulties experienced by the telecommunications industry.

Aqua Data

Aqua Data, in which Gaz Métropolitain owns a 50% interest, performs computerized diagnoses of drinking water distribution systems and domestic and industrial wastewater collection systems. Last year, in addition to its activities in Québec and the United States, Aqua Data concluded licensing agreements in the United States as well as, more recently, a partnership arrangement with Malcom Pirnie, a U.S. engineering firm specializing in environment and, in particular, the assessment of underground infrastructures.

Aqua-Rehab

Aqua-Rehab is a leader in water system maintenance, rehabilitation and intervention. The company, in which Gaz Métropolitain holds a 50% interest, is recognized for the efficiency and economy of its pipeline rehabilitation techniques compared to the alternative, which is replacement. In 2001, Aqua-Rehab increased its revenues by 30% and captured more than 70% of the rehabilitation contracts awarded in Québec. It also was able to penetrate the U.S. market.

Highlights

The Partnership's financial results are quite acceptable given the difficult, even unfavourable, competitive situation of natural gas during the first three quarters of the year.

As a result of the spike in gas prices deliveries were down significantly in the industrial sector with certain customers opting for another energy source or cutting back on production. Volumes dropped by 20.3% from 3.8 billion cubic meters in 2000 to 3.0 billion cubic meters in 2001. In the commercial and residential markets, the decrease was not as steep, with volumes of 2.6 billion cubic meters normalized for temperatures in 2001 compared to 2.7 billion cubic meters the preceding year. The 3.2% decrease in these markets can be explained primarily by lower consumption as a result of the spike in natural gas prices and energy-saving awareness programs introduced during the year. Total normalized volumes were down 13.5% from 6.5 billion cubic meters in 2000 to 5.6 billion cubic meters in 2001.

During the 2001 year, the Partnership earned income for Partners of $141.2 million, a decrease of $2.5 million (or 1.7%) compared to $143.7 million the preceding year. The impact of the decrease in deliveries on income was mitigated by vigilant gas supply management and lower operating expenses.

Since the summer, natural gas has regained a significant competitive advantage in relation to regular-priced electricity in the commercial market, which includes small and medium-size companies as well as institutions, such as hospitals and schools. In the residential market, natural gas is on an even footing with regular-priced electricity, the main competition. In the industrial market, where no. 6 fuel oil is generally the energy alternative, even though the price differential has narrowed, the competitive situation remains unfavourable.

Consolidated Operating Results

Revenues

Revenues rose by $434 million, or 26.6%, to $2.068 billion compared to $1.634 billion in 2000. This increase can be explained primarily by the increase in the price of system gas, which went on average from $3.93/gigajoule in 2000 to $6.79/ gigajoule in 2001 (+ 72.8%). However, natural gas purchased by the Partnership is billed at cost to customers in Québec and, therefore, has no direct impact on gross margin or Partners' income.

Gross Margin

Gross margin is $541.8 million for the 2001 year compared to $533.4 million the preceding year. The net increase of $8.4 million, or 1.6%, is primarily due to the optimization of transportation and storage capacities in the Québec distribution activity.

Expenses

Operations and maintenance expenses of $172.2 million in 2001 were down by $3.9 million from $176.1 million the preceding year. Lower operating expenses for the Québec distribution activity and the sale during the year of a propane gas distribution subsidiary explain this decrease. Depreciation and amortization of $127.1 million are $6.3 million higher than the preceding year. Major investments in the distribution systems over the past few years are the main reason for the increase in depreciation and amortization in 2001. Interest on long-term debt is $95.4 million compared to $87.5 million in 2000, reflecting the increase in the debt load to finance higher inventories and accounts receivable as a result of the increase in gas prices during the year. Financial and other expenses, which include interest on short-term debt, are $5.9 million compared to $5.3 million in 2000. Total expenses increased from $389.7 million in 2000 to $400.6 million in 2001. The $10.9 million increase can be explained by the increase in depreciation and amortization and financial expenses.

Partners' income

Partners' income is down by $2.5 million to $141.2 million in 2001 from $143.7 million in 2000. The impact of the decrease in deliveries on income was mitigated by the optimization of transportation and storage capacities,

an increase in the rate base due to higher inventories and accounts receivable during the year, and the reduction in operating expenses. Results for the 2001 year include the Partnership's $3.0 million share of overearnings of $6.0 million earned in 2000 by the Québec distribution activity. For the 2000 year, $5.5 million had been recorded in respect of 1999 overearnings. The results for the Québec distribution activity for the year ended September 30, 2001 will be filed shortly with the Régie de l'énergie and will show no overearnings.

The average number of outstanding units of 110.5 million is the same as the preceding year. Partners' income of $1.28 per unit for the 2001 year is down by $0.02 per unit.

Income Tax

Because of the Partnership's limited partnership status, income tax is not included in the calculation of Partners' income. Such expense is, in principle, borne by each Partner. The Partnership has an agreement with the tax authorities on harmonizing as much as possible the rules for calculating income for tax purposes with regulatory accounting principles. For the year ended September 30, 2001, income for tax purposes exceeded distributions by 4.8% for federal purposes and 4.2% for Québec purposes. Partners that hold their units in a non-taxable vehicle, such as an RRSP, are not affected by the difference between income for tax purposes and distributions received.

Financial Structure

The Partnership's balance sheet shows total assets of $2.3 billion, an increase of $86.7 million over the preceding year. This increase can be explained primarily by an increase in "Other" assets, i.e. deferred charges, goodwill and other ($111.8 million), as well as a net increase in property, plant and equipment ($10.0 million) and a decrease in current assets ($35.1 million). The increase in other assets is the result of an increase in deferred charges caused by higher prices for system gas ($86.3 million), computer development ($14.6 million) and new investments. The increase in property, plant and equipment is due to a $36.8 million increase in investments to develop and improve the various transportation and distribution systems coupled with a decrease of $26.8 million following the sale of the propane gas subsidiary in Vermont and the decrease in the rate base of TQM Pipeline and Company, Limited Partnership ("TQM"). And lastly, the decrease in current assets can be explained primarily by lower accounts receivable ($41.5 million), which is partially offset by slightly higher year-end inventories.

The accounts receivable securitization program improves the utilization of the Partnership's financial assets. As at September 30, 2001, the value of the accounts receivable that had been securitized amounted to $63.0 million ($37.0 million less than the $100.0 million limit negotiated with a financial institution), compared to $43.0 million as at September 30, 2000.

Long-term debt is made up of fixed rate first mortgage bonds with various maturities up to October 2030 issued by the Partnership and of the pro rata share of those issued by TQM. As at September 30, 2001, total outstanding bonds amount to $856.5 million ($734.5 million in 2000). The Partnership's policy is to fix interest rates on approximately 75% of its long-term debt and leave the balance at floating rates. As at September 30, 2001, 75% of long-term debt is at fixed rates.

The Partnership has various lines of credit, including a term loan of $300 million and operating lines totalling $193 million. The term loan can be used to finance the Partnership's current operations and capital expenditures or to support its commercial notes program. As at September 30, 2001, total borrowings are $234.6 million ($282.1 million in 2000). No repayments of the term loan are required before April 30, 2005.

Subsidiaries and joint ventures have term loans of $188.4 million and operating lines of $57.4 million. As at September 30, 2001, actual borrowings of subsidiaries and the share of joint venture borrowings total $207.6 million ($206.0 million in 2000).

The operating lines of the Partnership and its subsidiaries and joint ventures are sufficient to meet seasonal cash flow requirements for the 2002 fiscal year.

Partners' equity of $811.8 million as at September 30, 2001 is up by $5.9 million over the preceding year, which can be explained by translation adjustments of $5.0 million on investments in the United States and a $0.9 million excess of Partners' income over distributions.

As is indicated in the financial statements, the Partnership occasionally makes use of financial derivatives to stabilize the cost of natural gas. The Partnership had its new derivatives policy approved by the Régie de l'énergie during the past year for the distribution of gas in Québec. This policy establishes the parameters for using financial instruments to protect customers against the volatility of system gas costs. It is important to point out that, on average, for natural gas distributed in Québec, the unit cost of this protection represents only $0.30/gigajoule for total forecast system gas volumes for the next three years. Moreover, gains or losses attributable to these financial instruments are reimbursed or recovered through gas supply rates in accordance with the method approved by the Régie.

In addition, the Partnership and certain subsidiaries and joint ventures use swaps to hedge against possible interest rate hikes or foreign exchange fluctuations. In line with the Partnership's policy, derivative products are only used to cover risks flowing from actual transactions and cannot be used for speculative purposes.

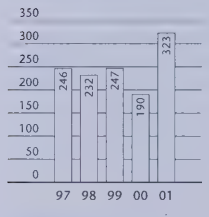
The Partnership's financial structure and stability have enabled it to obtain credit ratings from Standard & Poors (U.S.) of A for its long-term bonds and A-1(low) for its commercial paper. Its A/R1 (low) ratings by Canada's Dominion Bond Rating Service were maintained.

As at November 15, 2001, the closing price of the Partnership's units was $17.30 on the Toronto Stock Exchange.

Liquidity and Capital Structure

Consolidated cash flows, before changes in non-cash working capital items, total $297.5 million compared to $265.9 million generated during the preceding year, an increase of $31.6 million or 11.9%. The $5.4 million increase in depreciation and amortization and the decrease in deferred transportation and balancing charges and the rate stabilization accounts more than offset the $2.5 million decrease in income for the past year.

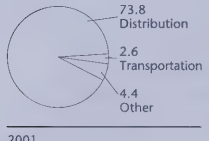
Cash flows provided by operations
(in millions of dollars)



The rate stabilization account normalizes revenues upward or downward based on volumes that would have been sold in Québec if temperatures had been normal. However, this does not involve any receipt or outlay of funds in the year volumes are normalized. Revenues were adjusted upward by $5.3 million in 2001, compared to $29.1 million in 2000. This can be explained by temperatures that were colder than in 2000 but warmer than normal. The regulatory mechanism provides that the Partnership may, starting in the second subsequent year, recover the annual adjustment in its rates over the next five fiscal years.

Non-cash working capital items generated $25.6 million compared to $75.8 million used in 2000. Funds generated in 2001 result primarily from the decrease in the cost of natural gas included in accounts receivable at year-end. For example, the price of system gas in Québec sold to customers on September 30, 2001 was $4.48/gigajoule, compared to $5.38/gigajoule on September 30, 2000. Operating activities, after the change in non-cash working capital items, generated $323.0 million during the past fiscal year, compared to $190.0 million in 2000.

Acquisitions of property, plant & equipment
(in millions of dollars)



The Partnership made investments of $257.9 million in 2001, compared to $142.7 million in 2000, an increase of $115.2 million. Deferred charges of $172.1 million are up by $119.5 million over 2000. This significant increase is primarily due to increases related to the price of natural gas and information technology expenses.

Acquisitions of property, plant and equipment are down by $5.2 million in 2001 to $80.8 million, which can be explained primarily by slightly lower investments in Québec distribution activities as a result of the difficult competitive situation. Net funds used for investments and customer loans of $5.0 million are up $1.0 million over 2000. The Partnership invested $6.0 million in convertible debentures of Cable VDN inc.

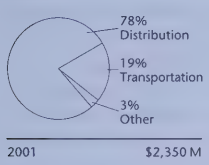
During the past year, the Partnership issued $125 million of 30-year first mortgage bonds bearing a coupon of 7.05%. The proceeds of the issue were used to reduce current debt, finance capital expenditures as well as for other general purposes.

Distributions to Partners in 2001 amount to $140.3 million, compared to $137.0 million the preceding year. Effective January 1, 2001, quarterly distributions were increased from $0.31 per unit to $0.32 per unit. Distributions per unit total $1.27 in 2001, compared to $1.24 in 2000. This is in line with the Partnership's policy of distributing virtually all of its income in each fiscal year.

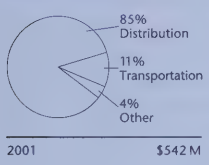
Activities by Sector

As described in the note on segmented data (Note 13 to the consolidated financial statements), the Partnership's three sectors of activity are the distribution and transportation of natural gas, and energy services and other activities.

Assets



Gross margin



The distribution of natural gas in Québec is the Partnership's core business. This sector includes the natural gas distribution activities of the Northern New England Gas Corporation ("NNEG") group in Vermont.

The natural gas transportation activity includes a 50% interest in TQM and a 20.7% interest (19.1% in 2000) in Portland Natural Gas Transmission System ("PNGTS"). This sector also includes the activities of the Champion Pipe Line Corporation Ltd. ("Champion"), a subsidiary.

Energy services and other includes the Partnership's unregulated activities, in particular the activities of Gaz Métropolitain Plus Limited Partnership and Climatisation et Chauffage Urbains de Montréal, a wholly-owned subsidiary. Investments in Aqua Data inc./Stelem inc., Aqua-Rehab inc. Group and Sofame Technologies inc. are also included in this sector.

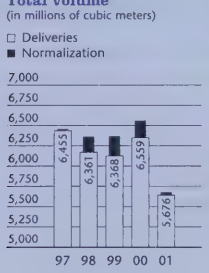
The Partnership's assets consist mainly of property, plant and equipment used for the distribution of natural gas. Of total assets of $2.3 billion, 78% are related to the distribution sector, 19% to transportation activities and 3% to energy services and other, which is similar to 2000.

Distribution revenues include the cost of natural gas, which, as has already been explained, has no impact on the Partnership's results. Gross margin provides a better indication than revenues of the Partnership's performance. Distribution and transportation activities generate 96% of the gross margin of $541.8 million. The rates that generate this portion of the gross margin are set by regulatory bodies based on the approved cost of service, including a return on equity employed. Energy services and other generated 4% of the Partnership's consolidated gross margin in 2001.

In 2001, the distribution and transportation sectors generated all of the Partners' income.

Distribution Sector

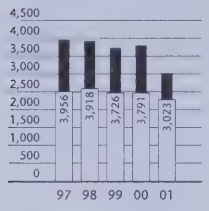
Total volume
(in millions of cubic meters)



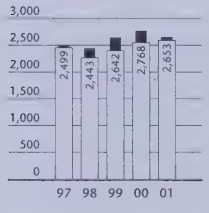
The Partnership delivers approximately 97% of the natural gas consumed in Québec. Vermont Gas Systems, Inc., a subsidiary of NNEG, is the sole gas distributor in Vermont. In 2001, deliveries in Vermont represented 4% of the Partnership's total deliveries.

The increase in the price of natural gas affected deliveries in 2001: 5,639 million cubic meters in 2001, compared to 6,348 million cubic meters for the preceding year, a decrease of 11.2%. If temperatures had been normal, deliveries would have been 5,676 million cubic meters in 2001, compared to 6,559 million cubic meters in 2000, a decrease of 13.5%.

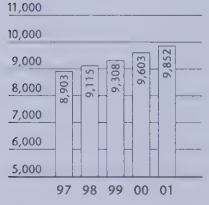
Deliveries to industrial customers
(in millions of cubic meters)



Deliveries to commercial and residential customers
(in millions of cubic meters)



Kilometers of distribution pipeline



In Québec, the Partnership benefits from a normalization mechanism for its distribution revenues based on normal temperatures. As temperatures have been warmer than normal over the past few years, the normalization of volumes represented 36.8 million cubic meters in 2001 and 211.0 million in 2000.

In the industrial market, deliveries are 3,023 million cubic meters in 2001, compared to 3,791 million cubic meters the preceding year. The 20.3% decrease is largely attributable to lower consumption by industrial customers on interruptible service that used another source of energy. However, contracts with these industrial customers provide for annual minimum consumption, which prevents revenues from falling below these minimum levels.

Deliveries to commercial and residential customers increased by 2.3% over the preceding year, which can be explained by colder temperatures in 2001 than in 2000. Normalized volumes were down 3.2% from 2000. The significant increase in natural gas prices and its impact on customers' bills provided an incentive for customers to save energy.

In 2001, the Partnership sold its 51% interest in VGS Propane, a propane gas distributor in Vermont. In a context of rapid market consolidation, the original prospects for VGS Propane were no longer there. The impact of the sale of this investment on the Partnership's consolidated results is negligible.

Capital expenditures in the distribution sector totalled $73.9 million in 2001, compared to $79.1 million in 2000. Investments in 2001 include the construction of 249 kilometres of pipeline, system improvements, in particular with respect to safety, and various general expenditures e.g. buildings and vehicle fleet.

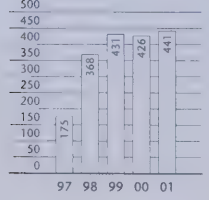
The distribution sector has 184,489 customers, 150,918 in Québec and 33,571 in Vermont. To serve these customers, the Partnership had, as at September 30, 2001, 1,182 employees in Québec and 108 in Vermont. Operations and maintenance costs for the distribution sector are down by 1.9% to $143.1 million in 2001, compared to $145.9 million in 2000. Depreciation and amortization is $107.8 million in 2001, compared to $103.9 million for the preceding year. Interest on long-term debt is $70.4 million in 2001, compared to $63.5 million in 2000.

And finally, the distribution sector generated income of $134.6 million in 2001, compared to $135.2 million in 2000, a decrease of $0.6 million.

Transportation Sector

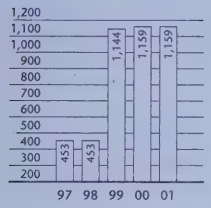
The transportation sector includes the activities of the wholly-owned subsidiary, Champion, the 50% interest in TQM and the 20.7% interest in PNGTS. TQM operates a 572-kilometre transportation system. An original 355-kilometre line extends from Saint-Lazare, west of the Island of Montréal, to Saint-Nicolas, in the suburbs of Québec City. This section was put in service in 1982. A 217-kilometre extension that was completed and put into service in 1999 extends from its mainline in Lachenaie to East Hereford, at the Québec/New Hampshire border. The 489-kilometre PNGTS pipeline originates at East Hereford and crosses parts of New Hampshire, Maine and Massachusetts to the suburbs of Boston. It commenced operations in March 1999. Champion serves the Abitibi-Témiscamingue region in Québec with two gas pipelines totalling 98 kilometres.

Partnership's share of transportation assets
(in millions of dollars)



Champion and TQM are regulated by the National Energy Board in Canada. PNGTS is regulated by the Federal Energy Regulatory Commission ("FERC") in the United States. PNGTS' rates are set based on cost of service and volumes forecast by the promoters of the gas pipeline. PNGTS concluded 20-year agreements with its first customers. Pursuant to these agreements, it has committed to freezing its rates until March 2002, after which time they will be adjusted in

Kilometers of transportation pipeline



accordance with the cost of service authorized by the FERC. A rate revision application was filed with the FERC on October 1, 2001. Approximately 60% of the PNGTS capacity is under long-term contracts, which at current rates covers its expenses.

For 2001, gross margin for the transportation sector is $59.3 million, compared to $60.1 million in 2000. Operations and maintenance costs are $9.7 million in 2001, compared to $11.4 million in 2000. Depreciation and amortization amount to $16.4 million in 2001, compared to $14.4 million in 2000. Interest on long-term debt of $22.6 million is up by $0.7 million over 2000.

The transportation sector generated net income of $10.3 million for the current year, compared to $12.0 million in 2000. The difference can be explained by the increase in depreciation and amortization.

Energy Services and Other

Revenues from unregulated activities amounted to $48.0 million in 2001, compared to $45.3 million in 2000. The higher revenues reflect the growth in sales for certain subsidiaries, in particular Climatisation et Chauffage Urbains de Montréal, Aqua Data and Aqua-Rehab. Gross margin rose by $1.3 million in 2001 to $21.6 million over the 2000 year.

Operations and maintenance expenses are $17.6 million in 2001, an increase of $2.2 million over the preceding year, which can be explained by a full year of operations for Gaz Métropolitain Plus. Partners' income decreased from $0.5 million in 2000 to a loss of $1.4 million in 2001. The creation of Gaz Métropolitain Plus, an independent entity that owns a number of subsidiaries and joint ventures, resulted in reorganization and restructuring costs that had a negative impact on profitability during the 2001 year.

Subsequent Event

Effective October 1, 2001, the Partnership will adopt the accounting recommendations in new Section 3062 – Goodwill and Other Intangible Assets of the Handbook of The Canadian Institute of Chartered Accountants. Accordingly, the Partnership will no longer amortize unamortized goodwill of $24,002,000 as at September 30, 2001. Amortization for the 2001 fiscal year amounts to $1,172,000. However, goodwill should be subjected to an amortization test based on fair value.

Depreciable intangible assets will be subject to an amortization test in accordance with the provisions of Section 3061 – Property, Plant and Equipment, based on the recovery of their net carrying amount.

Risks and Uncertainties

The Partnership's core business is the distribution of natural gas in its exclusive service areas in Québec and Vermont. Its ability to achieve sound financial results is mainly dependent on the competitiveness of natural gas in relation to other energy sources, the evolution of interest rates, the economic context in which the businesses it serves are operating and the decisions rendered by the regulatory bodies, in particular by the Régie de l'énergie with respect to rates and authorized return on Partners' equity allocated to Québec distribution. The base rate of return authorized by the Régie de l'énergie is determined by a formula that fixes the return as a function of forecast Canadian long-term interest rates. The base rate of return has been fixed at 9.67% for the 2002 fiscal year, compared to 9.60% for 2001. It can be increased depending on productivity gains determined in accordance with the new performance incentive mechanism approved by the Régie effective with the 2001 fiscal year. The incentive will reward the Partnership for generating a greater return on investments, optimizing asset use and exercising tighter control over its costs.

The Partnership's income growth over the longer term will depend in particular on the increase in investments related to the development of its distribution and transportation systems or the construction of gas pipelines or acquisitions. To a lesser extent, growth will also come from its ability to develop its unregulated activities. At this point in time, the main concern is gas price levels following the major fluctuations of the past two years.

After peaking in the 2001 winter, prices have fallen by approximately 50% since spring in a context where supply has increased and demand has decreased as a result of the deteriorating economic situation. However, increased demand for electric generation using natural gas in the United States might place upward pressure on prices for this energy source, particularly in a context of economic recovery on the North American continent. Greater access to the U.S. market for Canadian gas and the rapid development of reserves in the northwestern and northeastern parts of the continent will have an impact on the supply of natural gas in the future.

OPEC producers may find it difficult to maintain their prices in the face of a global economic slowdown and a war on terrorism. Light and heavy fuel oil prices are relatively attractive for certain users. Electricity has the greater share of the residential market, and its stable price makes competition more difficult even if natural gas is on an even footing. In the commercial market, the electricity distributor is targeting certain market segments with offers that may prove attractive for certain customers. However, natural gas is benefiting once again from a favourable competitive situation.

If the difficult competitive situation experienced in 2001 were to recur in the future, certain industrial customers and other large users might decide not to make long-term commitments for significant volumes. However, there are considerations other than price that are also a factor when choosing an energy source. Ease of use, consumption-based billing and respect for the environment are characteristics that make natural gas a preferred choice.

The future financial performance of PNGTS will be related to obtaining new rates from the U.S. regulatory authorities based on gas pipeline construction costs approved by the FERC. The financial performance of PNGTS will also depend on its ability to increase transportation volumes.

And finally, on October 1, 2001, the Partnership successfully implemented Phase I of the Enterprise Resource Planning system that uses SAP technologies for all administrative functions in the Québec distribution activity. The project was carried out on schedule and on budget. Phase II, which covers customer relations and billings will require significant resources and investments over the next two years. The scope of the project involves business risks normally associated with the implementation of this type of system. For the time being, management does not foresee any issue that would prevent successful completion of the second phase in terms of scope, timetable or budget. It has made it a top priority for the organization.

Outlook and Priorities for the 2002 Fiscal Year

The Partnership is starting a second year under its new regulatory framework for the Québec distribution activity, which, given the difficult market context, served customers and investors well in 2001. The challenge for the current and future years will be to continue the profitable development of the distribution activity based on increasing the customer base in all market segments, exercising tight control over expenses and ensuring the safety and reliability of the system. Financial performance is heavily dependent on the state of the economy and the demand for natural gas. In spite of the events of September 11 in the United States and the resulting acceleration of the recession, the Partnership is aiming for results that are similar to 2001. In the distribution activities in Vermont, where the competitive situation of natural gas in relation to electricity is very favourable, the Partnership intends to pursue development. The forecast stability of gas prices for next winter gives reason to expect strong financial performance from Vermont Gas in 2002.

The Partnership does not foresee any major changes in the transportation sector over the next year. However, results could be affected positively by the performance of PNGTS that will be entitled to revise its rates starting in the spring 2002. In the Energy Services sector, Gaz Métropolitain Plus should become profitable following a year in which the companies in the group were reorganized. The other unregulated activities, which centre on the diagnostics and rehabilitation of water and waste water systems, should continue to seize business opportunities arising from public sector infrastructure rehabilitation programs.

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Management's Report

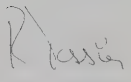
on the Consolidated Financial Statements of Gaz Métropolitain and Company, Limited Partnership

The consolidated financial statements of Gaz Métropolitain and Company, Limited Partnership and all of the information in this report are the responsibility of the management of Gaz Métropolitain, inc., acting in its capacity as General Partner of Gaz Métropolitain and Company, Limited Partnership. It is management's responsibility to select the appropriate accounting policies and to exercise its best judgement in determining reasonable and fair estimates based on Canadian generally accepted accounting principles and decisions from the Régie de l'énergie. Financial information found elsewhere in this report is consistent with the consolidated financial statements.

Management maintains accounting and internal control systems that are designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Board of Directors assumes its responsibilities for the financial statements primarily through the Audit Committee, made up solely of outside directors. The Audit Committee reviews all of the information in this report as well as the annual financial statements and recommends their approval to the Board. The Audit Committee also examines on a continuous basis the quarterly financial results, the results of internal and external audits of accounting methods and the system of internal controls. The Audit Committee also recommends to the Board the appointment of external auditors. The external and internal auditors are free to communicate with the Audit Committee.

The firm of Raymond Chabot Grant Thornton has been given the mandate to audit the consolidated financial statements of Gaz Métropolitain and Company, Limited Partnership in accordance with Canadian generally accepted auditing standards. Their audit included the tests and other procedures they deemed necessary under the circumstances. Their independent opinion on the financial statements is presented hereinafter.



Robert Tessier
President and Chief Executive Officer
Gaz Métropolitain, inc.
Montréal, Canada
November 13, 2001



Luc Sicotte
Vice President and Chief Financial Officer
Gaz Métropolitain, inc.

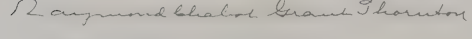
Auditors' Report

To the Partners of Gaz Métropolitain and Company, Limited Partnership

We have audited the consolidated balance sheets of Gaz Métropolitain and Company, Limited Partnership as at September 30, 2001 and 2000, and the consolidated statements of income, Partners' equity and consolidated cash flows for the years then ended. These financial statements are the responsibility of the management of Gaz Métropolitain, inc., acting in its capacity as General Partner of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Raymond Chabot Grant Thornton
General Partnership
Chartered Accountants
Montréal, Canada
November 13, 2001

Years ended September 30 (in thousands of dollars)	2001	2000
Revenues	$2,068,346	$1,633,736
Direct costs	1,526,582	1,100,310
Gross margin	541,764	533,426
Expenses		
Operations and maintenance	172,203	176,109
Depreciation and amortization (Notes 2, 3 and 4)	127,111	120,797
Interest on long-term debt	95,430	87,464
Financial and other	5,856	5,334
	400,600	389,704
Partners' income	$ 141,164	$ 143,722
Weighted average number of outstanding units (in thousands)	110,469	110,469
Partners' income per unit (in dollars)	$ 1.28	$ 1.30

The accompanying notes to the consolidated financial statements are an integral part of these statements.

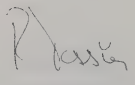
Years ended September 30 (in thousands of dollars)	2001	2000
Capital		
Balance, beginning of year	$ 798,381	$ 791,640
Partners' income	141,164	143,722
	939,545	935,362
Distributions to Partners (Note 8)	(140,295)	(136,981)
Balance, end of year	799,250	798,381
Translation adjustment		
Balance, beginning of year	7,579	5,183
Change	5,016	2,396
Balance, end of year	12,595	7,579
Partners' equity	$ 811,845	$ 805,960

The accompanying notes to the consolidated financial statements are an integral part of these statements.

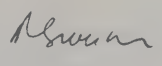
As at September 30 (in thousands of dollars)	2001	2000
Assets		
CURRENT ASSETS		
Cash	$ 3,708	$ 4,081
Trade and other receivables	32,757	74,267
Inventories	216,534	207,598
Prepaid expenses	6,377	8,525
	259,376	294,471
PROPERTY, PLANT AND EQUIPMENT (Note 2)	1,750,700	1,740,645
OTHER ITEMS		
Deferred charges (Note 3)	292,833	191,736
Goodwill and other (Note 4)	46,787	36,087
	339,620	227,823
	$2,349,696	$2,262,939
Liabilities		
CURRENT LIABILITIES		
Bank borrowings (Note 6)	$ 38,441	$ 33,216
Accounts payable and accrued liabilities	229,086	228,486
Debt maturing within one year	3,099	3,722
	270,626	265,424
LONG-TERM DEBT (Note 7)	1,267,225	1,189,766
NON-CONTROLLING INTEREST	–	1,789
	1,537,851	1,456,979
Partners' equity (Note 8)	811,845	805,960
	$2,349,696	$2,262,939

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board of Directors of Gaz Métropolitain, inc.,
in its capacity as General Partner



Robert Tessier
Director



Réal Sureau
Director

Years ended September 30 (in thousands of dollars)	2001	2000
Operating activities		
Partners' income	$ 141,164	$ 143,722
Non-cash items:		
Depreciation of property, plant and equipment	82,741	78,026
Amortization of deferred charges and issue expenses	44,374	43,678
Amortization of goodwill	1,172	1,226
Reduction in deferred charges related to natural gas transportation and storage	32,329	28,924
Rate stabilization accounts	(5,274)	(29,050)
Non-controlling interest and other	953	(676)
	297,459	265,850
Change in non-cash working capital items (Note 9a)	25,559	(75,847)
Cash flows related to operating activities	323,018	190,003
Investing activities		
Purchases of property, plant and equipment	(80,833)	(86,012)
Deferred charges	(172,070)	(52,624)
Investments and customer loans	(4,990)	(4,021)
Cash flows related to investing activities	(257,893)	(142,657)
Financing activities		
Change in bank borrowings	4,536	(12,926)
Change in term loan	(50,938)	27,567
Other long-term debt:		
Issue	125,139	153,906
Repayments	(4,799)	(84,463)
Non-controlling interest	859	429
Distributions to Partners	(140,295)	(136,981)
Cash flows related to financing activities	(65,498)	(52,468)
Net decrease in cash and cash equivalents	(373)	(5,122)
Cash and cash equivalents, beginning of year	4,081	9,203
Cash and cash equivalents, end of year	$ 3,708	$ 4,081

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. Summary of significant accounting policies

The consolidated financial statements of Gaz Métropolitain and Company, Limited Partnership (hereinafter the "Partnership" or "GMCLP") are prepared in accordance with Canadian generally accepted accounting principles. In preparing the consolidated financial statements, the Partnership's management has to make estimates and assumptions that have an impact on the assets and liabilities shown in the balance sheet, the contingent liabilities noted as at the date of the financial statements and on the revenues and expenses presented in the statement of income for the year. Actual results may differ from these estimates.

Principles of consolidation

The consolidated financial statements of the Partnership include the accounts of GMCLP and its subsidiaries. In addition, the investments in joint ventures are accounted for under the proportionate consolidation method. Other investments are recorded at cost.

Regulation

GMCLP is engaged primarily in the distribution of natural gas by pipeline in Québec. This activity (hereinafter "GMCLP-QDA") is regulated and distribution rates are fixed by the Régie de l'énergie (hereinafter the "Régie") and the system development and marketing activities are subject to its supervision and control.

The Act respecting the Régie de l'énergie provides that the natural gas supply rate must reflect the actual acquisition cost of the distributor as well as any other supply condition allowed by suppliers. In Decision D-95-44, the Régie approved a periodic adjustment mechanism to the price of gas. In Decision D-90-42, the Régie approved an automatic rate adjustment mechanism, upward or downward as necessary, that allows the distributor to reflect cost variations arising from changes to the rates of its transportation and storage service suppliers and to the cost of compression gas in its own rates.

The Act respecting the Régie also provides that distribution rates are set to enable the distributor to recover the cost of providing the service, to obtain a reasonable return on the rate base recognized by the Régie and to improve its performance by providing incentives.

In decision D-90-75 issued on December 19, 1990, as part of the corporate reorganization of August 12, 1991, the Régie determined that the rate of return on the rate base would be set using an "adjusted" capital structure. With this structure, Partners' equity allocated to the Québec distribution activity is in the order of 46%, including 38.5% that is compensated on the same basis as corporate common shares and 7.5% on the same basis as preferred shares. For regulatory purposes, GMCLP-QDA's operating expenses include deemed current income taxes, large corporations tax and capital tax. These deemed taxes are calculated as if GMCLP were a taxable Canadian corporation, notwithstanding the tax status and the tax rate of the Partners.

In addition, the Régie, in exercising its powers, renders decisions with respect to the use by GMCLP-QDA of certain accounting practices which differ from those otherwise applied in unregulated businesses, in particular with respect to certain deferred charges including rate stabilization accounts, property, plant and equipment and their related depreciation, income taxes and employee future benefits.

Certain activities of subsidiaries and joint ventures are regulated by bodies such as the National Energy Board (hereinafter "NEB"), the Federal Energy Regulatory Commission and the Vermont Public Service Board.

Cash and cash equivalents

Cash and cash equivalents consist of cash and very liquid short-term investments with a maturity of three months or less when purchased.

Inventories

Natural gas in storage is carried at average cost using the monthly adjustment method, approved by the Régie, which provides for the total cost to be charged to customers. Inventories of materials and supplies are carried at the lower of average cost and replacement value.

Property, plant and equipment

Acquisitions, replacements and improvements are recorded at cost, including direct costs, general and administrative expenses and an allowance on funds used for certain construction projects as accepted by regulatory authorities. The historical cost of retired properties related to the distribution system and the retirement costs are applied against accumulated depreciation when the properties are retired. Under this method, no gain or loss on disposal of assets is realized.

Depreciation is calculated using mainly the straight-line method based on the residual useful lives of the existing assets. The rates are periodically revised and approved by the Régie and include recovery of the unamortized cost of existing assets, estimates of the future costs of retiring the properties and the profit and loss upon disposal of properties already retired.

Deferred charges

GMCLP defers certain charges that are amortized and recovered in its rates over various periods not exceeding ten years depending on the nature of such charges.

To alleviate the effect of unpredictable and uncontrollable factors on its operations, the principal one being the impact of temperature fluctuations on its revenues, GMCLP-QDA is authorized by the Régie to maintain various rate stabilization accounts. Beginning in the second subsequent year, annual fluctuations are amortized over five years and recovered in rates.

Goodwill

Management reviews goodwill annually to determine the possible loss in value by comparing the real value of its investments in its subsidiaries and joint ventures with undiscounted future cash flows. If economic factors and related conditions appeared to indicate a permanent loss of value, GMCLP would then recognize the loss of value in the current year.

Development activities

The costs related to development activities are capitalized except in cases where GMCLP does not have reasonable assurance that these costs will be recovered in the future.

Foreign currency translation

Long-term debt payable in foreign currency is translated into Canadian dollars at the rate of exchange prevailing at year-end or, as the case may be, at rates prescribed in forward exchange contracts used for hedging purposes. Unrealized gains and losses on exchange are deferred and amortized over the balance of the refund periods.

The assets and liabilities of foreign subsidiaries that are self-sustaining with respect to financing and operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rate prevailing during the fiscal year. Gains and losses are shown under the caption "Translation adjustment" in the consolidated Partners' equity.

Revenues

Revenues include estimated volumes delivered but not billed at the end of the year as well as the impact of rate stabilization accounts resulting from temperature fluctuations. Overearnings, if any, which are recognized following the Régie's decision, are deducted from revenues.

Income taxes

GMCLP as well as its subsidiaries and joint ventures formed as limited partnerships do not show income tax expense since under existing legislation it is the Partners who are taxable.

Subsidiaries and joint ventures formed as corporations use the tax liability method to record income taxes, with the exception of one subsidiary that uses the taxes payable method, as authorized by the NEB.

1. Summary of significant accounting policies (continued)

Employee Future Benefits

GMCLP-QDA charges pension contributions and post-retirement to income as the amounts are disbursed in accordance with the most probable assumptions with respect to the forecast return on the plan's assets, salary increases and retirement age.

GMCLP's subsidiaries and joint ventures record post-retirement benefits in accordance with the accounting practices prescribed by the CICA. Pension contributions of defined contribution plans correspond to the amount of the contributions made. The cost for defined benefit plans and other post-employment benefits is determined by actuarial calculation based on a projected benefit method prorated according to eligible years of service and is expensed as the services are rendered by the employees.

Unit-based Compensation

GMCLP offers a unit option plan to named executives. No expense is charged to income when unit options are granted to these employees. The consideration received from the employees when they exercise the options will be credited to capital.

2. Property, plant and equipment

	2001			2000		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Storage	$ 24,510	$ 12,360	$ 12,150	$ 23,842	$ 11,712	$ 12,130
Transportation	852,453	340,013	512,440	825,685	311,676	514,009
Distribution	1,943,046	605,236	1,337,810	1,889,988	555,809	1,334,179
General plant	180,363	73,221	107,142	174,616	67,128	107,488
	3,000,372	1,030,830	1,969,542	2,914,131	946,325	1,967,806
Government grants	(444,152)	(225,310)	(218,842)	(436,678)	(209,517)	(227,161)
	$ 2,556,220	$ 805,520	$ 1,750,700	$ 2,477,453	$ 736,808	$ 1,740,645

Average depreciation rates are 3.36% in 2001 and 3.28% in 2000. Depreciation is $82,741,000 in 2001 and $78,026,000 in 2000. The amount of capitalized general and administrative expenses totals $9,128,000 in 2001 and $9,627,000 in 2000.

3. Deferred charges

	2001	2000
Conversion grants	$ 57,187	$ 52,858
Costs related to infrastructure projects	11,548	15,398
Development of information technology	38,900	24,488
Rate flexibility	1,844	3,986
Long-term debt issue expenses	9,932	11,222
Expenses related to natural gas costs	81,871	(9,922)
Rate stabilization accounts	70,795	77,768
Other	20,756	15,938
	$292,833	$191,736

Amortization of deferred charges is $43,198,000 in 2001 and $41,545,000 in 2000 and the amortization of long-term debt issue expenses included in interest on long-term debt is $1,176,000 in 2001 and $2,133,000 in 2000. The reduction in deferred charges related to natural gas costs, including transportation and storage, is $32,329,000 in 2001 and $28,924,000 in 2000.

4. Goodwill and other

	2001	2000
Unamortized goodwill	$24,002	$24,698
Customer loans	2,180	3,898
Preferred shares of a subsidiary of Gaz Métropolitain, inc. (Notes 7 j and 14)	7,396	–
Other investments	13,209	7,491
	$46,787	$36,087

Goodwill is amortized using the straight-line method over periods of 17 to 40 years. Amortization is $1,172,000 in 2001 and $1,226,000 in 2000.

5. Interest in joint ventures

	2001	2000
Owned by GMCLP		
TQM Pipeline and Company, Limited Partnership ("TQM"):	50.0%	50.0%
Sogener and Company, Limited Partnership [1]:	–	50.1%
Aqua-Rehab Group Inc.:	50.0%	50.0%
Sofame Technologies Inc.:	34.5%	25.0%
3632491 Canada Inc. (sole shareholder of Aqua Data Inc. and Stelem Inc.):	50.0%	50.0%
TelDig Systems Inc.:	50.0%	50.0%
Owned through subsidiaries		
Portland Natural Gas Transmission System ("PNGTS"):	20.7%	19.1%
Option Gaz Ltée:	50.0%	50.0%

GMCLP's share of the consolidated financial statement components of the joint ventures is as follows:

	2001	2000
Income		
Revenues	$ 67,601	$ 67,500
Expenses	53,723	53,835
Net income	$ 13,878	$ 13,665
Balance sheet		
Current assets	$ 24,862	$ 21,844
Long-term assets	412,802	400,695
	$437,664	$422,539
Current liabilities	$ 26,738	$ 23,784
Long-term liabilities	268,710	258,549
	295,448	282,333
Partners' equity	142,216	140,206
	$437,664	$422,539
Cash flows related to:		
Operating activities	$ 25,833	$ 25,265
Investing activities	(5,063)	(3,232)
Financing activities	(19,462)	(18,791)
Increase in cash and cash equivalents	$ 1,308	$ 3,242

(1) On December 22, 2000, GMCLP increased its investment in Sogener and Company, Limited Partnership from 50.1% to 100%.

6. Bank borrowings

The short-term bank borrowings and credit lines of GMCLP and its TQM joint venture are unsecured and bear interest at a rate of 3.65% and 4.30% respectively as at September 30, 2001 and of 5.90% and 6.32% respectively as at September 30, 2000. The maximum authorized amounts for these borrowings are $193,000,000 for GMCLP and $30,000,000 for its share in TQM.

As at September 30, 2001 and 2000, bank loans and credit lines of Vermont Gas Systems (hereinafter "VGS") bear interest at the rate of 3.04% and 6.82% respectively. The maximum authorized loan of $23,678,000 (US$15,000,000) for VGS is unsecured.

7. Long-term debt

	Interest rate	Year of maturity	2001	2000
GMCLP (a)				
First mortgage bonds (b)				
Series	11.75%	2006	$ 39,000	$ 42,000
Series	10.75%	2007	75,000	75,000
Series "D"	10.45%	2017	125,000	125,000
Series "E"	9.00%	2025	100,000	100,000
Series "F"	7.20%	2028	50,000	50,000
Series "H"	6.05%	2009	100,000	100,000
Series "H"	6.95%	2010	100,000	100,000
Series "I"	7.05%	2031	125,000	–
			714,000	592,000
Term loan (5.93% in 2000) (c)	3.92%	2005	223,601	273,068
Other (5.64% in 2000)	5.66%	2003	2,744	4,160
			940,345	869,228
NNEG (d)				
Term note NNEG (d) (US$10,200 in 2001 and 2000)	7.45%	2002	16,101	15,336
Unsecured preferred note of VGS (US$10,000 in 2001 and 2000)	7.62%	2028	15,785	15,035
Term note Vermont Gas Propane ("VGSP") (e) (US$7,850 in 2000)	8.21%	2003	–	11,802
PNGTS term loan (7.47% in 2000) (f) (US$52,910 in 2001 and US$48,813 in 2000)	5.85%	2003	83,519	73,390
			115,405	115,563
TQM				
First mortgage bonds (g)				
Series "G"	8.51%	2005	42,500	42,500
Series "H"	6.50%	2009	50,000	50,000
Series "I"	7.05%	2010	50,000	50,000
			142,500	142,500
Term loan (6.04% in 2000) (h)	4.18%	2003	42,350	42,350
			184,850	184,850
Other				
Non-recourse term loans and other (6.46% in 2000) (i)	4.26%	2003 to 2005	22,358	23,847
Preferred units (j)			7,366	–
			29,724	23,847
			1,270,324	1,193,488
Current portions			3,099	3,722
			$1,267,225	$1,189,766

Annual capital repayments:
Annual capital repayments required during the next five years to meet maturities and sinking fund requirements, excluding redemptions before maturity at GMCLP's option and amounts that will be refinanced through long-term borrowings, are:

2002: $3,099,000 2003: $48,697,000 2004: $3,061,000 2005: $3,053,000 2006: $3,020,000

a) The first mortgage bonds and the term loan are secured under a trust deed which contains a hypothec on the universality of movable property, present and future, of GMCLP situated in the province of Québec. These loans are also covered by a first immovable hypothec on the GMCLP present and future pipelines and gas system.

b) GMCLP's first mortgage bonds are redeemable at the greater of the face value or the value that reflects market conditions.

c) The term loan makes it possible to use commercial paper and the agreement allows GMCLP to borrow up to $300,000,000; no repayments are required before the maturity date of April 30, 2005.

d) The Northern New England Gas Corporation ("NNEG") term note is secured by the shares of its wholly-owned subsidiary, VGS.

e) The VGSP term loan includes an interest rate swap agreement fixing the rate at 7.65%.

f) This non-recourse term loan for the project's partners is secured by a direct charge on PNGTS' principal assets, including long-term customer contracts, and PNGTS' units held by its partners.

Interest rate swap agreements, for which the Partnership's share represents a nominal value of $61,962,000 (US$39,254,000), fixing the effective rate at 6.35%, have been concluded until March 2003.

g) TQM's first mortgage bonds are all secured by a fixed, specific first hypothec on the gas pipeline system and on service, transportation and gas sales contracts, and by a hypothec on the business and all property and assets. Upon reimbursement by TQM of the Series G bonds maturing on September 22, 2005, and all series issued after September 30, 2001, if any, the Series H and I bonds will no longer be secured by these hypothecs.

h) On April 1, 2000, TQM's term loan, originally obtained for its system extension, was converted for an additional period of three years and is secured by hypothecs, as described in note g). The Partnership's interest in the maximum amount of this loan is $42,350,000 as at September 30, 2001 and 2000.

i) GMCLP's subsidiaries can borrow up to $30,600,000 under term loan agreements, secured by a hypothec on the universality of their movable property and an immovable hypothec of $7,000,000 on an immovable property. For the most part, the term loans are bankers' acceptances.

j) The preferred units, which are held by Gaz Métropolitain Plus, inc., a wholly owned subsidiary of Gaz Métropolitain, inc., are retractable and redeemable and have a non-cumulative return of 6%.

k) As at September 30, 2001 and 2000, unregulated activities, both related and unrelated to the energy sector, owned by GMCLP represented 1.5% and 1.4% respectively, of its total non-consolidated assets. GMCLP has undertaken not to increase its interest in such activities above 10% of its total non-consolidated assets pursuant to its trust deeds.

l) As at September 30, 2001 and 2000, interest coverage on consolidated long-term debt is respectively 2.51 times and 2.68 times and consolidated tangible net asset coverage on consolidated long-term debt, including current maturities, is respectively 1.61 times and 1.65 times.

8. Partners' equity

Authorized

Unlimited number of units; each unit is equal in rank with any other unit and is entitled to the same rights, privileges and obligations.

Issued and fully paid

	2001	2000
Number of units as at September 30 (in thousands of units)	110,469	110,469

8. Partners' equity (continued)

The agreements relating to the various long-term debt trust deeds provide that GMCLP will not make a distribution to its Partners if long-term debt exceeds 75% of total capitalization. The agreements also provide that GMCLP will not issue any new long-term debt if such debt would exceed 65% of total capitalization. GMCLP is in compliance with these covenants as at September 30, 2001 and 2000.

Unit Option Plan

The Partnership has reserved 1,000,000 units for a unit option plan. Options cannot be exercised before the first anniversary of a grant unless the Board of Directors determines otherwise when an option is granted. Options can be exercised at a cumulative rate of 25% on each of four anniversaries of the grant. Options expire seven years after the grant date. On November 15, 2000, GMCLP granted named executives 132,440 unit options at a price of $15.04. These options can only be exercised if the average unit price is at least $17.35 for three consecutive months.

9. Cash flows

a) Change in non-cash working capital items

	2001	2000
Trade and other receivables	$39,830	$(32,390)
Inventories	(9,305)	(74,363)
Prepaid expenses	2,062	3,795
Accounts payable and accrued liabilities	(7,028)	27,111
	$25,559	$(75,847)

b) Other information:

	2001	2000
Interest received	$ 2,078	$ 2,888
Interest paid	$91,979	$ 92,166

10. Results

a) As at September 30, 2000, the Partnership recognized a liability for preliminary overearnings of $6,015,000. Following the review of the regulatory report for the year ended September 30, 2000 and based on the method for sharing overearnings, the Régie has authorized the distributor to keep an amount of $3,024,000 as an incentive return, which is included in income for 2001. An amount of $5,545,000 was included in 2000 income following the submission of the regulatory report for the year ended September 30, 1999.

For the year ending September 30, 2001, revenues have not been reduced by preliminary overearnings. A regulatory report should be filed with the Régie in December 2001 for the year ended September 30, 2001.

b) For the years ending September 30, 2001 and 2000, annual changes in the rate stabilization accounts represent net revenues of $5,274,000 and $29,050,000 respectively, which are included in the corresponding revenue, direct cost and interest on long-term debt accounts.

c) For the years ended September 30, 2001 and 2000, the operations and maintenance account includes income taxes of $2,145,000 and $2,101,000 as well as future income taxes of $737,000 and $1,269,000 for the subsidiaries and joint ventures.

Net income taxes payable and net future income taxes of $9,119,000 as at September 30, 2001 and $6,692,000 as at September 30, 2000 are presented in the balance sheet.

11. Employee Future Benefits

The Partnership maintains defined benefit or defined contribution pension plans that cover virtually all of its employees. The defined benefit plans are funded, which ensures that employees will receive a pension determined according to length of service and salaries during their highest earning years.

The Partnership also provides post-employment benefits other than pensions, including supplementary health and dental care and life insurance, for virtually all of its employees, their spouses and qualified dependants. These benefits are not funded.

Certain subsidiaries and joint ventures have adopted the new recommendations in Section 3461 of the CICA Handbook with respect to employee future benefits prospectively. The new standard requires the accrual basis of accounting for all employee future benefits—both pension and other post-employment benefits. Previously, these items were expensed as amounts were disbursed. The impact of adopting these new standards did not have a material effect on the Partnership's financial statements.

The following tables describe the Partnership's employee future benefits-related obligations and expenses in accordance with the new standards set out in Section 3461 of the CICA Handbook as well as the impact of the unrecorded transitional obligations of GMCLP-QDA:

	2001	
	Pension plans	Other post-employment benefits
Accrued benefit obligation		
BALANCE, BEGINNING OF YEAR	$209,278	$27,102
Adjustment due to adoption of new standard	350	–
ADJUSTED BEGINNING BALANCE	209,628	27,102
Current service cost	8,250	707
Interest cost	15,173	1,801
Employee contributions	2,455	–
Benefits paid and reimbursements	(12,093)	(1,804)
Plan amendment costs	24,648	–
Actuarial loss	7,871	264
Foreign exchange variations	392	–
BALANCE, END OF YEAR	256,324	28,070
Plan assets at fair value		
BALANCE, BEGINNING OF YEAR	245,328	–
Adjustment due to adoption of new standard (1)	42,011	–
ADJUSTED BEGINNING BALANCE	287,339	–
Actual return on plan assets	(12,190)	–
Employer contributions	2,236	–
Employee contributions	2,455	–
Benefits paid and reimbursements	(12,093)	–
Foreign exchange variations	342	–
BALANCE, END OF YEAR	268,089	–
Excess (Deficiency) of assets versus obligations	11,765	(28,070)
Unamortized past service costs	23,996	–
Unamortized net actuarial loss	41,547	264
Unamortized transitional obligation (asset)	(72,609)	22,213
Accrued benefit asset (obligation), based on CICA	$ 4,699	$(5,593)
Representing:		
Accrued benefit asset (obligation) of GMCLP-QDA unrecognized	$ 4,598	$(2,915)
Accrued benefit asset (obligation) recognized	101	(2,678)
	$ 4,699	$(5,593)

(1) Pension plan assets are now valued at their fair value at the balance sheet date. Previously they were valued at an average market value and fluctuations were allocated over a five-year period.

11. Employee Future Benefits (continued)

	2001	
	Pension plans	Other post-employment benefits
Main actuarial assumptions		
Discount rate	6.50%	6.50%
Expected long-term rate of return on plan assets	7.75%	–
Rate of compensation increase	3.50%	3.50%

	2001	
	Pension plans	Other post-employment benefits
The Partnership's net employee future benefit expense is as follows:		
Current service cost	$ 8,250	$ 707
Interest cost	15,173	1,801
Expected return on plan assets	(21,926)	–
Amortization of past service costs	828	–
Amortization of transitional obligation (asset)	(5,501)	1,852
Net employee future benefit expense (income), based on CICA	$ (3,176)	$4,360
Representing:		
Expense (Revenue) of GMCLP-QDA unrecognized	$ (4,598)	$3,509
Net expense recognized	1,422	851
	$ (3,176)	$4,360

GMCLP-DQA's employee future benefits expense on a cash basis for the 2001 fiscal year is $988,000 for pension plans and $792,000 for other post-employment benefits.

The expense for defined contribution and other plans is $747,000 for the fiscal year ended September 30, 2001. As at September 30, 2000, costs attributable to the Partnership's pension plans amount to $4,623,000.

12. Regulatory and tax position

For regulatory purposes for GMCLP-QDA, only current income taxes payable are deemed and taken into account in setting rates. For income tax purposes, GMCLP has claimed capital cost allowance and certain other deductions relating to deferred charges that have the effect of reducing the Partners' income for tax purposes, thereby deferring to future years income taxes otherwise payable by the Partners.

The amount of these future income taxes, and the taxes related to GMCLP's ownership interest in TQM relating to the regulated activities and not recognized by the Partnership, are calculated in accordance with the balance sheet method in Section 3465 of the CICA handbook. Under this method, future income taxes are determined based on the differences between the accounting and tax bases of assets and liabilities. The future income tax assets and liabilities are calculated at the tax rate for a taxable Canadian corporation that should be in effect during the year in which the temporary differences should be realized or settled. In prior years, these amounts were calculated using the deferral method at the rate applicable to each of the fiscal years during which the differences had been created and were not adjusted for the current rate.

The net future income tax liability amounts to $132,676,000 as at September 30, 2001 (balance sheet method) and to $188,126,000 as at September 30, 2000 (deferral method). The cumulative effect of the change from the deferral method to the balance sheet method in Section 3465 of the CICA Handbook on this net future income tax liability amounts to $24,737,000 receivable as at October 1, 2000. The reversal of future income taxes for the fiscal year, primarily on account of changes in tax rates, amounts to $30,713,000. The Régie and the NEB should allow these future income taxes to be included in rates when the temporary differences reverse, with the exception of amounts of $6,126,000 as at September 30, 2001 and $5,732,000 as at September 30, 2000 arising primarily from the 1991 reorganization.

13. Segmented data

The business sectors presented are segmented in line with the way management organizes the various segments within the Partnership for the purposes of operational decision-making and performance assessment.

GMCLP has the three following reportable segments:

DISTRIBUTION: delivers natural gas to users;

TRANSPORTATION: transports natural gas, generally from the producers to the distributor;

ENERGY SERVICES AND OTHER: includes unregulated activities of energy and technology services, sale, leasing, financing and maintenance of gas appliances, and water and waste water system diagnoses and repairs.

The accounting policies for these segments are the same as those described in Note 1. The Partnership assesses performance based on operating income before income taxes.

The Partnership records inter-segment sales and transfers as though they were made to a third party, i.e. at market value.

	2001				
	Distribution	Transportation	Energy services and other	Non-allocated expenses and eliminations	Total
Customer revenues	$1,962,585	$ 58,371	$42,306	$ –	$2,063,262
Inter-segment revenues	677	668	4,906	(6,251)	–
Interest income (a)	3,958	297	829	–	5,084
Total revenues	1,967,220	59,336	48,041	(6,251)	2,068,346
Direct costs	1,506,051	–	26,430	(5,899)	1,526,582
Gross margin	461,169	59,336	21,611	(352)	541,764
Operations and maintenance expenses	143,071	9,723	17,607	1,802	172,203
Earnings before interest, taxes, depreciation and amortization (EBITDA)	318,098	49,613	4,004	(2,154)	369,561
Depreciation and amortization	107,789	16,420	2,704	198	127,111
Interest expense	75,755	22,890	2,659	(18)	101,286
Partners' income	$ 134,554	$ 10,303	$ (1,359)	$ (2,334)	$ 141,164
Assets	$1,852,942	$440,658	$67,579	$(11,483)	$2,349,696
Property, plant and equipment	$ 73,860	$ 2,585	$ 4,388	$ –	$ 80,833
Deferred charges	168,547	1,660	385	1,478	172,070
	$ 242,407	$ 4,245	$ 4,773	$ 1,478	$ 252,903

13. Segmented data (continued)

	2000				
	Distribution	Transportation	Energy services and other	Non-allocated expenses and eliminations	Total
Customer revenues	$1,530,369	$ 57,957	$40,391	$ –	$1,628,717
Inter-segment revenues	2,097	687	4,736	(7,520)	–
Interest income (a)	3,387	1,494	138	–	5,019
Total revenues	1,535,853	60,138	45,265	(7,520)	1,633,736
Direct costs	1,082,493	–	24,916	(7,099)	1,100,310
Gross margin	453,360	60,138	20,349	(421)	533,426
Operations and maintenance expenses	145,884	11,438	15,409	3,378	176,109
EBITDA	307,476	48,700	4,940	(3,799)	357,317
Depreciation and amortization	103,918	14,378	2,303	198	120,797
Interest expense	68,395	22,287	2,128	(12)	92,798
Partners' income	$ 135,163	$ 12,035	$ 509	$ (3,985)	$ 143,722
Assets	$1,788,632	$426,052	$59,873	$(11,618)	$2,262,939
Property, plant and equipment	$ 79,092	$ 1,528	$ 5,392	$ –	$ 86,012
Deferred charges	51,961	1,261	1,204	(1,802)	52,624
	$ 131,053	$ 2,789	$ 6,596	$ (1,802)	$ 138,636

Only the distribution sector includes significant items other than depreciation and amortization that have no impact on cash flows, i.e. rate stabilization accounts and reduction in deferred charges related to the transportation and storage of natural g as specifically shown in the cash flow statement.

a) Distribution interest income arises mainly from the capitalized return on assets not included in the rate base in accordance with regulatory provisions.

Geographic information

	2001		2000	
	Revenues	Fixed assets and goodwill	Revenues	Fixed assets and goodwill
Canada	$1,954,754	$1,547,735	$1,533,554	$1,547,940
United States	113,592	226,967	100,182	217,403
Total	$2,068,346	$1,774,702	$1,633,736	$1,765,343

14. Related party transactions

During the year, GMCLP concluded the following transactions with related parties in the normal course of business, as authorized by the Régie. The amounts received from or paid to related parties are determined based on contracts between the parties and in which the value of the services rendered has been established at the exchange amount:

	2001	2000
Purchase of natural gas from one of the ultimate shareholders of Gaz Métropolitain, inc.	$21,384	$19,680
Storage service owned in part by one of the ultimate shareholders of Gaz Métropolitain, inc.	$15,973	$13,900

As at September 30, 2001 and 2000, transactions with the parent company, Gaz Métropolitain, inc. (hereinafter "GMi"), and companies owned by its ultimate shareholder represent a net amount payable of $4,181,000 and $4,164,000 included in accounts payable and accrued liabilities, and trade and other receivables. Under the partnership agreement, GMCLP pays management fees of $50,000 annually to GMi.

As of October 1, 2000, GMCLP transferred 100% of the shares of its subsidiary, CCUM, to Gaz Métropolitain Plus inc. ("GMPi"), a wholly-owned subsidiary of GMi, in exchange for $7,396,000 preferred shares of GMPi. This transaction was realized at market value.

GMPi's assets were transferred to Climatisation et Chauffage Urbains de Montréal, s.e.c. ("CCUM, s.e.c.") in exchange for preferred units of CCUM, s.e.c. having a value of $7,366,000.

These transactions were recorded at the carrying amount.

15. Financial instruments

The fair value of the financial instruments represents the estimated amounts that the Partnership would receive or pay to cancel these financial instruments as at the date of the financial statements. As at September 30, 2001, the Partnership is not planning to cancel any financial instruments before the maturity date.

Financial instruments included in balance sheet

Cash, trade and other receivables, bank borrowings as well as accounts payable and accrued liabilities are short-term financial instruments whose fair value approximates the carrying amount given that they will mature shortly.

FAIR VALUE OF LONG-TERM DEBT

The fair value of the long-term debt, including current instalments, is calculated using stock exchange prices at the end of the year or discounted cash flows using interest rates which GMCLP, its subsidiaries and its joint ventures could have obtained as at the balance sheet date for loans with similar terms, conditions and maturity dates.

	2001		2000	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt				
GMCLP	**$ 940,345**	**$1,028,434**	$ 869,228	$ 954,402
NNEG	**115,405**	**122,017**	115,563	120,391
TQM	**184,850**	**190,555**	184,850	187,576
Other	**29,724**	**29,724**	23,847	23,847
	$1,270,324	**$1,370,730**	$1,193,488	$1,286,216

Off-balance sheet financial instruments

The Partnership uses derivative financial instruments, namely various instruments in order to stabilize the cost of gas and swap agreements to hedge against interest rate fluctuations. The fair value of off-balance sheet derivative instruments is determined using published indices on the closing date.

Derivatives used by GMCLP-QDA to stabilize the cost of system gas comply with the parameters approved by the Régie. Gains or losses attributable to financial instruments used by GMCLP-QDA are reimbursed or recovered through gas supply rates in accordance with the method approved by the Régie. Gains or losses attributable to other financial instruments are deferred and recognized in income under revenues and expenses arising from the corresponding hedged positions on the basis allowed by the Régie.

15. Financial instruments (continued)

The Partnership only concludes risk management transactions with major financial institutions that meet its credit evaluation standards.

FAIR VALUE OF OFF-BALANCE SHEET FINANCIAL INSTRUMENTS THAT ARE SENSITIVE TO INTEREST RATES AND GAS PRICES

The estimated market value of derivative instruments related to the price of gas fluctuates daily based on the volatility of natural gas prices and the period covered by the instruments.

	2001				2000
					Fair value receivable
	Maturity				
	2002	2003	2004	Total	2001
Interest rates					
Swaps related to					
long-term debt (Note 7 e, f)	$ –	$ (2,542)	$ –	$ (2,542)	$1,766
Gas prices					
Contracts:					
Swaps	$(24,160)	$ (8,808)	$ (9,012)	$(41,980)	$2,093
Calls	(17,284)	(16,790)	(9,368)	(43,442)	–
Collars	(6,947)	–	–	(6,947)	–
	$(48,391)	$(25,598)	$(18,380)	$(92,369)	$2,093

	2001				2000
					Thousands of gigajoules
	Maturity				
	2002	2003	2004	Total	2001
Volumes covered					
Swaps	11,064	3,960	3,970	18,994	558
Calls	8,965	7,300	4,280	20,545	–
Collars	3,573	–	–	3,573	–
	23,602	11,260	8,250	43,112	558

SALE OF RECEIVABLES

In September 1996, GMCLP signed a sales agreement covering a portion of its trade receivables for a period of five years ending on October 1, 2001. Under the agreement, GMCLP must assign each month a minimum of $40,000,000 and a maximum of $100,000,000 of its trade receivables, which was complied with for the 2001 and 2000 years. The proceeds from the sale total $63,000,000 as at September 30, 2001 and $43,000,000 as at September 30, 2000.

On October 1, 2001, GMCLP signed a new sales agreement covering a portion of its trade receivables for a period of three years ending October 1, 2004. Pursuant to the terms of this agreement, a maximum of $85,000,000 of trade receivables may be assigned every month.

Management considers that these derivative financial instruments do not present any unusual risk and does not expect any significant gain or loss as a result of these transactions.

16. Contingencies

a) GMCLP is cited in claims and lawsuits in the normal course of its activities. In the opinion of management, these claims and lawsuits are, for the most part, covered by appropriate insurance coverage and the overall amount of the contingent liability relating to these claims and lawsuits is not material.

b) The NNEG subsidiary has been cited in a lawsuit, jointly with others, following the discovery of polluting substances on land it once owned for a brief period of time during the 1960s. The investigation by the U.S. Environmental Protection Agency has not been completed and NNEG is unable to predict the outcome of the lawsuit at this time. In the event a claim arises, an application will be filed with the Vermont Public Service Board to seek recovery through the rates of VGS. Moreover, an agreement was reached, in 1994, between NNEG and a third party limiting the maximum amount payable by NNEG. In the opinion of management, any costs resulting from this claim would not be significant for the Partnership.

c) Upon completion of the construction of the TQM pipeline extension to the U.S. border, the project manager of the construction work lodged a claim against TQM for reimbursement of the contractor's cost overruns. This claim is presently under arbitration to determine the merits and the quantum of the claim. The contractor also registered a legal hypothec on TQM's pipeline, the result of which depends on the merits of the claim and the non-payment of the debt by TQM, which is unlikely. GMCLP does not expect the arbitrator's decision will have a significant financial impact on the pipeline's profitability or on the Partnership's overall financial situation.

17. Subsequent events

Distributions totalling $35,350,000, or $0.32 per unit, were paid to Partners on October 1, 2001.

18. Comparative data

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

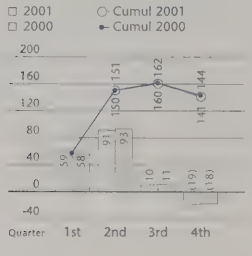
QUARTERLY CONSOLIDATED FINANCIAL INFORMATION [1] [2]

Years ended September 30 (in thousands of dollars)	1st	2nd	3rd	4th	2001 Year
Revenues	$654,799	$798,434	$374,771	$240,342	$2,068,346
Gross margin	$162,901	$194,025	$110,060	$ 74,778	$ 541,764
Partners' income	$ 59,322	$ 90,574	$ 9,841	$(18,573)	$ 141,164
Partners' income per unit (in dollars)	$ 0.54	$ 0.82	$ 0.09	$ (0.17)	$ 1.28
Distribution paid (in dollars)	$ 0.310	$ 0.320	$ 0.320	$ 0.320	$ 1.27
Partners' equity per unit (in dollars)	$ 7.52	$ 8.07	$ 7.80	$ 7.35	$ 7.35
Unit trading (in dollars):					
High	$ 15.95	$ 16.74	$ 16.50	$ 16.90	$ 16.90
Low	$ 14.80	$ 15.85	$ 15.85	$ 15.85	$ 14.80
Close – Toronto Stock Exchange	$ 15.80	$ 16.00	$ 16.05	$ 16.35	$ 16.35
Number of units outstanding (in millions)	110.5	110.5	110.5	110.5	110.5

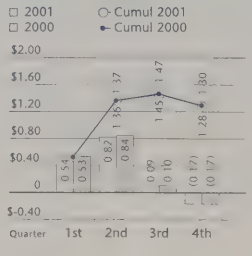
	1st	2nd	3rd	4th	2000 Year
Revenues	$437,079	$548,521	$351,220	$296,916	$1,633,736
Gross margin	$153,053	$194,988	$107,473	$ 77,912	$ 533,426
Partners' income	$ 58,077	$ 92,778	$ 11,316	$(18,449)	$ 143,722
Partners' income per unit (in dollars)	$ 0.53	$ 0.84	$ 0.10	$ (0.17)	$ 1.30
Distribution paid (in dollars)	$ 0.310	$ 0.310	$ 0.310	$ 0.310	$ 1.24
Partners' equity per unit (in dollars)	$ 7.41	$ 7.95	$ 7.76	$ 7.30	$ 7.30
Unit trading (in dollars):					
High	$ 17.00	$ 15.10	$ 15.70	$ 17.00	$ 17.00
Low	$ 13.50	$ 13.40	$ 13.75	$ 13.40	$ 13.40
Close – Toronto Stock Exchange	$ 14.25	$ 14.45	$ 15.00	$ 15.60	$ 15.60
Number of units outstanding (in millions)	110.5	110.5	110.5	110.5	110.5

(1) Unaudited quarterly data.
(2) Seasonal temperature fluctuations affect GMCLP's quarterly financial results, as the following charts show.

Partners' income
(in millions of dollars)



Partners' income per unit



Years ended September 30	2001	2000	1999	1998	1997
Natural gas deliveries (10^6m^3)					
DISTRIBUTION					
Industrial					
Firm service	2,182	2,377	2,372	2,549	2,514
Interruptible service	841	1,414	1,354	1,369	1,442
Commercial	1,883	1,833	1,710	1,566	1,724
Residential	733	724	687	685	752
Total (10^6m^3)	5,639	6,348	6,123	6,169	6,432
Total (Bcf)	199	224	216	218	227
TRANSPORTATION (2) (3)					
(10^6m^3)	6,023	5,855	3,928	3,335	3,535
(Bcf)	213	207	139	118	125
Customers (distribution)					
Industrial	2,109	2,038	2,095	2,062	2,067
Commercial	45,860	45,307	43,826	42,285	41,053
Residential	136,520	136,117	133,734	133,587	133,461
Total	184,489	183,462	179,655	177,934	176,581
System data					
Length of pipelines (in km)					
DISTRIBUTION					
Canada	8,999	8,775	8,493	8,328	8,144
United States	853	828	815	787	759
Total	9,852	9,603	9,308	9,115	8,903
TRANSPORTATION (2)					
Canada	670	670	670	453	453
United States	489	489	474	–	–
Total	1,159	1,159	1,144	453	453
Gross property, plant and equipment (in millions of dollars)	2,556	2,477	2,396	2,235	1,987
Net property, plant and equipment (in millions of dollars)	1,751	1,741	1,727	1,628	1,447
Property, plant, equipment and deferred charges (in millions of dollars)	253	139	235	256	121
Number of employees (3)					
DISTRIBUTION					
GMCLP	1,182	1,300	1,292	1,276	1,261
NNEG	108	147	144	154	117
	1,290	1,447	1,436	1,430	1,378
TRANSPORTATION					
TQM	60	70	66	65	58
PNGTS	31	29	29	17	–
	91	99	95	82	58
ENERGY SERVICES AND OTHER					
Gaz Métropolitain Plus (4)	92	89	26	24	18
CONSULGAZ	3	4	3	2	1
OPTION GAZ	17	18	–	–	–
CCUM	16	24	21	21	20
SOGENER	14	11	5	1	–
TELDIG	12	8	8	–	–
SOFAME	18	22	23	–	–
AQUA-REHAB	33	29	40	–	–
AQUA DATA	61	57	59	–	–
	266	262	185	48	39

(1) Unaudited data.
(2) Includes volumes transported and delivered by TQM to the distribution sector and PNGTS.
(3) Data not adjusted for GMCLP's percentage interest in the subsidiaries and joint ventures.
(4) Previously GMPLP before 2000.

Years ended September 30 (in thousands of dollars)	2001	2000	1999
Summary of results			
Revenues	$2,068,346	$1,633,736	$1,339,022
Direct costs	1,526,582	1,100,310	841,367
Gross margin	541,764	533,426	497,655
Operations and maintenance (1)	172,203	176,109	164,556
Operating income before depreciation and amortization	369,561	357,317	333,099
Depreciation and amortization	127,111	120,797	106,834
Operating income	242,450	236,520	226,265
Financial expense	101,286	92,798	90,493
PARTNERS' INCOME	$ 141,164	$ 143,722	$ 135,772
Cash flows			
Operating activities (including working capital)	$ 323,018	$ 190,003	$ 246,539
Investing activities	(257,893)	(142,657)	(242,372)
Financing activities:			
Distributions paid to Partners	(140,295)	(136,981)	(134,748)
Other financing activities	74,797	84,513	111,620
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (373)	$ (5,122)	$ (18,961)
Per unit data (2)			
Partners' income (in dollars)	$ 1.28	$ 1.30	$ 1.25
Operating cash flows based on weighted average number of units outstanding (in dollars)	$ 2.92	$ 1.72	$ 2.27
Distribution announced (in dollars)	$ 1.28	$ 1.24	$ 1.24
Partners' equity (in dollars)	$ 7.35	$ 7.30	$ 7.21
Weighted average number of units outstanding (in thousands)	110,469	110,469	108,671
Number of units outstanding as at September 30 (in thousands)	110,469	110,469	110,469
Financial structure			
Debt maturing within one year	$ 3,099	$ 3,722	$ 11,321
Long-term debt	1,267,225	1,189,766	1,082,376
Total debt	1,270,324	1,193,488	1,093,697
Partners' equity	811,845	805,960	796,823
TOTAL	$2,082,169	$1,999,448	$1,890,520
Total debt/total capitalization	61.0%	59.7%	57.9%
Interest coverage ratio on consolidated long-term debt	2.5	2.7	2.6
Total assets	$2,349,696	$2,262,939	$2,137,998
FINANCIAL INFORMATION RELATED TO DETERMINATION OF RATE OF RETURN OF GMCLP – QDA BY THE RÉGIE DE L'ÉNERGIE (4) (5)			
Rate base (6)	$1,545,839	$1,486,889	$1,413,245
Deemed common equity (6)	38.50%	38.50%	38.50%
Authorized rate of return on deemed common equity	10.38%	9.72%	9.64%
Deemed prefered equity (6)	7.17%	7.45%	7.50%
Authorized rate of return on deemed prefered equity	5.37%	5.61%	5.88%
Deemed tax expense	$ 60,350	$ 63,890	$ 55,716

(1) Include development activities.
(2) GMCLP has been a listed partnership since 1993.
(3) Pro forma net income of $1.15 calculated as if the net income for the initial Partners until January 31, 1993 had been distributed on the first day of the fiscal year and as if the units had been issued on the same date.

1998	1997	1996	1995	1994	1993	1992
$1,216,923	$1,197,742	$1,117,600	$1,088,164	$1,221,470	$1,050,361	$1,076,975
736,063	722,052	643,278	628,196	788,566	654,882	696,188
480,860	475,690	474,322	459,968	432,904	395,479	380,787
159,246	158,369	145,171	149,464	144,492	143,190	125,715
321,614	317,321	329,151	310,504	288,412	252,289	255,072
100,788	92,358	87,634	82,006	78,366	67,886	67,528
220,826	224,963	241,517	228,498	210,046	184,403	187,544
80,080	86,256	95,689	93,490	86,433	73,035	76,501
$ 140,746	$ 138,707	$ 145,828	$ 135,008	$ 123,613	$ 111,368	$ 111,043
$ 231,691	$ 246,294	$ 298,436	$ 253,324	$ 225,667	$ 222,567	$ 227,242
(265,771)	(118,823)	(145,530)	(241,226)	(244,029)	(193,129)	(95,412)
(138,459)	(142,200)	(141,666)	(132,893)	(120,931)	(172,444)	(73,466)
198,432	17,000	(18,240)	120,489	136,929	152,676	(58,364)
$ 25,893	$ 2,271	$ (7,000)	$ (306)	$ (2,364)	$ 9,670	$ 0
$ 1.32	$ 1.30	$ 1.36	$ 1.30	$ 1.24	$ 1.15 (3)	$ –
$ 2.17	$ 2.30	$ 2.79	$ 2.43	$ 2.27	$ 2.40	$ –
$ 1.29	$ 1.32	$ 1.33	$ 1.32	$ 1.23	$ 1.15	$ –
$ 6.93	$ 6.85	$ 6.87	$ 6.83	$ 6.50	$ 6.21	$ –
106,918	106,918	106,918	104,215	99,350	92,704	–
106,918	106,918	106,918	106,918	100,708	96,508	–
$ 10,053	$ 26,023	$ 12,071	$ 81,300	$ 56,220	$ 4,023	$ 44,600
1,034,770	819,829	841,934	767,467	738,961	615,132	512,235
1,044,823	845,852	854,005	848,767	795,181	619,155	556,835
740,943	732,148	734,903	730,329	654,415	598,861	555,972
$1,785,766	$1,578,000	$1,588,908	$1,579,096	$1,449,596	$1,218,016	$1,112,807
58.5%	53.6%	53.7%	53.8%	54.9%	50.8%	50.0%
2.9	2.7	2.7	2.5	2.5	2.6	2.6
$2,017,255	$1,775,254	$1,749,361	$1,760,611	$1,647,436	$1,376,981	$1,269,039
$1,397,303	$1,352,240	$1,340,108	$1,318,244	$1,228,911	$1,177,978	$1,164,793
38.53%	39.39%	38.14%	37.99%	38.26%	39.13%	38.48%
10.75%	11.50%	12.00%	12.00%	12.00%	12.50%	14.00%
7.50%	7.64%	7.60%	7.40%	7.33%	7.50%	7.33%
5.63%	5.36%	6.43%	6.74%	5.80%	5.73%	6.47%
$ 56,817	$ 56,954	$ 59,100	$ 45,322	$ 47,776	$ 44,825	$ 41,031

(4) Unaudited data.
(5) As noted under the accounting policies in the consolidated financial statements of GMCLP – QDA under Regulation.
(6) Calculated on a monthly average based on capitalization that differs from the financial structure as recorded in the balance sheet of GMCLP due to the inclusion of short-term financing, securitization of trade receivables and other items.

Gaz Métropolitain, inc. (the Company), as General Partner, is essentially devoted to managing the affairs of Gaz Métropolitain and Company, Limited Partnership (the Partnership).

As part of this responsibility, and in accordance with the requirements of the Toronto Stock Exchange on which the Partnership's units are traded, the following text summarizes the Company's corporate governance policies and practices. Approved by the Board of Directors on November 15, 2001, this statement satisfies the Stock Exchange guidelines.

The Company, which holds 77.4% of the Partnership's units, is a wholly-owned subsidiary of Noverco Inc., a private company.

1. Composition of the Board of Directors

The Board of Directors is made up of fourteen directors appointed by the sole shareholder. The Board believes that this size, which falls in the median range for similar companies, makes it possible to optimize the range of competencies and experience.

Within the meaning of the Stock Exchange guidelines, only the President and Chief Executive Officer is an inside director since he is an employee of the Partnership and an officer of the Company. The remaining directors are "unrelated" i.e. they are independent of management and are free from any interest or other relationship, other than the shareholder relationship, which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Partnership.

The Board includes at this time six directors, including the President and Chief Executive Officer, who are considered as independent in relation to the sole shareholder. The remaining eight directors are related to the sole shareholder.

2. Independence of the Board from Management

The aforementioned information about the composition of the Board, in particular the fact that directors are chosen by the sole shareholder and that only one of them is an inside director, illustrates the independence of the Board from management. In addition, the Chairman of the Board is an unrelated, outside director.

3. Responsibilities of the Board

As prescribed by the Companies Act (Québec) and the Company's General By-laws, the Company's affairs are managed by the Board of Directors. (The sole shareholder, by virtue of the law and General By-laws, may restrict the authority of the Board if it makes a written declaration to that effect, which it has never done to date.) As previously indicated, the business of the Company is essentially to manage the affairs of the Partnership. The Partnership's financial objective is to provide its Partners with a stable, predictable return, accompanied by growth in value over the years. From a business perspective, the Partnership intends to provide its customers with high-quality energy services at the lowest possible cost, through policies and programs aimed at motivating its employees and business partners.

The Board is responsible for supervising the management of the business with the objective of ensuring that its resources and potential are used and exploited in such a way as to create value for the Partners in accordance with applicable laws, standards and social responsibility. This growth objective includes protecting the value of the business against risks with which it is faced.

To effectively discharge its duty, the Board of Directors adopted a written mandate which sets forth the responsibilities it reserves to itself as well as the specific responsibilities which are delegated to the President and Chief Executive Officer. Furthermore, a written mandate for each Board committee has been approved by the Board.

4. Specific Responsibilities of the Board

Responsibilities of the Board include:

- the appointment of officers and setting out their responsibilities and authority for binding the Company;
- hiring, remuneration and evaluation of senior executives, as well as succession planning;
- approval of strategic plan and business plans flowing therefrom;
- approval of operating and capital budgets;
- approval of projects of the Company, or a subsidiary, for a major (i.e. in terms of dollars or strategic nature) acquisition or investment;
- approval of significant reorganizations or downsizings;
- authorization for the issue or redemption of the Company's or Partnership's securities;
- approval of material borrowings or financial commitments;
- approval of annual audited financial statements, quarterly financial statements and Annual Information Forms;
- declaration of dividends or capital reductions by the Company and declaration of the distribution of the Partnership's income;
- approval of a communications policy with public investors.

In addition, the Board, either directly or through its committees, is also responsible for:

- identification of the principal risks relating to the business and implementation of systems for managing them;
- establishment of annual and long-term objectives, which are translated into individual objectives for management, and monitoring their results;
- integrity of internal control and management information systems;
- quality of communications with the investing public and financial market and media representatives.

5. Composition and Position Descriptions of Board Committees

Except for the Executive Committee, which has the President and Chief Executive Officer as a member, Board committees are made up solely of outside, unrelated directors.

The position descriptions of these committees are summarized below:

5.1 Executive Committee

The Executive Committee shall possess and may exercise all powers of the Board of Directors, subject only to the relevant provisions of applicable legislation and restrictions imposed from time to time by the Board of Directors.

5.2 Human Resources and Corporate Governance Committee

Regarding corporate governance matters, the Committee shall be responsible for reviewing practices followed by the Board in overseeing the management of the Corporation's affairs, assessing board and committee effectiveness in this regard and making recommendations to the Board for improvements to corporate governance practices.

In addition, the Committee shall communicate to the sole shareholder its opinion on candidates which the sole shareholder has proposed as directors or on those individuals that should be considered.

From time to time, the Committee shall review director remuneration.

Regarding human resources matters, the Committee shall be responsible for reviewing all human resources issues which come under the jurisdiction of the Board of Directors and, for certain of those issues, make a final decision.

5.3 Audit Committee

The Committee shall be responsible for reviewing the financial information published by the Company and the Partnership, as well as how the risks that may affect the financial well-being of the organization are managed. It shall ensure that:

- there is an adequate risk management program for protecting the organization's assets;
- both the external and internal auditors are independent; and
- financial information transmitted to the directors and the investing public is complete and objective.

The Committee's specific responsibilities are broken down into five areas, namely external audit and auditor, financial information, internal audit and risk management.

5.4 Pension Fund Committee

The Committee's mandate is twofold: to oversee, for the Board, management of the Partnership's pension funds by the pension committees created by law, a majority of whose members are management representatives, and to assume the delegated powers and responsibilities of these pension plan committees relating to the investment policy for funds held in the global trust making up the pension plans, as well as the selection and monitoring of managers.

6. Orientation and Training of New Directors

Every new director shall be provided with a manual which includes a description of the Company and the Partnership, a summary of the duties, obligations and responsibilities of a director as well as a copy of the mandates of the Board and its committees. Every new director shall also be invited to meet with senior executives in order to gain an understanding of each sector of activity and to get to know each of them.

In addition, management makes sure that, through detailed presentations during Board meetings, directors are familiar with the Partnership's and industry business. Management is also always available to hold information sessions for the directors.

7. Outside Consultants' Services for Directors

Should a director wish to engage an outside consultant at the Company's expense, he (she) may do so with the prior approval of the Board of Directors or the Executive Committee or, in the case of an emergency, the Chairman of the Board.

8. Relations With Partners and the Investing Public

The Board, and in particular the Audit Committee, ensure that financial information for the Partners and the investing public is complete and objective, and that it is communicated within the timeframe established by the securities commissions and Stock Exchange. For that purpose, the principal communication sources, i.e. the Annual Report, the Annual Information Form, the Quarterly Reports and the Prospectuses, as well as the related press releases, are reviewed.

This information, as well as investor information sheet and other general information about the Partnership, are available on the Internet site (www.gazmetro.com). Any Partner who wants to contact the Partnership in order to obtain information or to express its views can communicate with the Investor Relations Coordinator, the Treasurer or the Vice President and Chief Financial Officer.

The Board sees to it that management maintains transparent and continuous communications with financial analysts, institutional investors and other financial market intervenors so that there will be proper recognition of the Partnership's performance.

Market Information

- Units listed on the Toronto Stock Exchange under the symbol GZM.UN.
- Unit prices during the years ended September 30:

	2001	2000
High	$16.90	$17.00
Low	$14.80	$13.40

- 110.5 million units outstanding with a market value of $1.8 billion as at September 30, 2001. At the same date, the market value of the 25.0 million units held by the limited Partners was $407.9 million.

Unit Tax Features

- Eligible investment for RRSP purposes—no restrictions.
- Income is taxable as business income and Partners have to file a Québec income tax return, regardless of their province of residence.
- Partners are allocated their share of the Partnership's taxable income on a pro rata basis in accordance with distributions received. Income tax information slips (T5013 for federal purposes and Relevé 15 for Québec purposes) are prepared and issued by the brokers. The Partnership prepares an explanatory guide for the preparation of corporate and individual income tax returns. This guide is sent with the tax information slips.
- The Partnership's income for tax purposes differs from accounting income due to differences between accounting principles and tax legislation. For the year ended September 30, 2001, income for tax purposes exceeded distributions by 4.8% for federal purposes and 4.2% for Québec purposes. Partners that hold their units in a non-taxable vehicle, such as an RRSP, are in no way affected by the difference between income for tax purposes and distributions received.
- Partners who are not resident in Canada must file both a federal and Québec income tax return and, under the terms of the Partnership Agreement, a Partner who is a "non-resident" of Canada can be required to sell his units to a person who is not a "non-resident".
- As the result of an amendment to the Act respecting the Québec Pension Plan, business income earned as a limited partner will no longer be subject to Québec Pension Plan contributions when the limited partner does not actively participate in the operations of the Partnership (retroactive to January 1, 1999).

Income Distributions

- Policy is to distribute virtually all of the income in each fiscal year.
- Quarterly distributions are paid on January 1, April 1, July 1 and October 1 to Partners of record at the close of business on December 15, March 15, June 15 and September 15 of each year.
- The Partnership approved a quarterly distribution of $0.32 per unit payable on January 1, 2002.
- Partners may request that their income distributions be deposited directly into a Canadian bank account. This rapid, reliable and convenient service is offered by most banks and other financial institutions. To take advantage of this direct deposit service, contact Computershare at (514) 982-7555 or 1-800-564-6253.

General Information

TRUSTEE: Computershare, Montréal

ANNUAL MEETING: The Partnership's annual meeting of Partners will be held at 4:00 p.m., on Wednesday, February 6, 2002, in the Salon International of the Centre Mont-Royal, 2200, Mansfield Street, Montréal, Québec.

PUBLICATION OF RESULTS: Following approval by the Board of Directors, the quarterly results will be published around the following dates:

1st quarter: February 19, 2002
2nd quarter: May 22, 2002
3rd quarter: August 21, 2002
4th quarter: November 20, 2002

INVESTOR RELATIONS: Steve Pilon, Coordinator–1717 du Havre Street, Montréal, Québec H2K 2X3
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Quarterly reports, annual report and press releases are accessible through our Internet site:
http://www.gazmetro.com

Board of Directors

J. Richard Bird [1]
Group Vice President
Transportation North
Enbridge Inc.

Pierre Cavalieros
Executive Vice President,
North America
Gaz de France

Nicolle Forget [3,4]
Corporate Director and
Vice President,
Transition Committee
City of Longueuil

Louis P. Gignac [1,4]
President and
Chief Executive Officer
Cambior inc.

Michel Gourdeau [1,2]
Executive Vice President
Natural Gas Sector
Hydro-Québec

Roger Lanoue [3]
Vice President
Research and
Strategic Planning
Hydro-Québec

Bernard Lemaire [1]
Chairman
Cascades Inc.

Stephen J.J. Letwin [2]
Group Vice President
Distribution and Services
Enbridge Inc.

Pierre-Yves Madignier [1]
Office Director for
Senior Executives
EDF/Gaz de France

Michel Maruenda
Deputy Executive
Vice President
Gas Distribution Division
EDF GDF Services

L. Jacques Ménard
(Vice Chairman of the Board)
President
The Bank of Montréal Group
of companies, Québec

Robert Parizeau [1,2,3,4]
(Chairman of the Board)
Chairman of the Board
Aon Parizeau Inc.

Réal Sureau [2,3,4]
Corporate Director and
Vice Chairperson, Patented
Medicine Prices Review Board

Robert Tessier [1]
President and
Chief Executive Officer
Gaz Métropolitain, inc.

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Pension Fund Committee
4 Member of the Human Resources and Corporate Governance Committee

Management

Robert Tessier
President and
Chief Executive Officer

René Bédard
Corporate Secretary

Stéphane Bertrand
Vice President
Communications, Public and
Governmental Affairs

André Boulanger
Vice President
Sales – Marketing
and Customer Services

Sophie Brochu
Vice President
Business Development
and Gas Supply

Jacques Charron
Vice President
Operations

Pierre Despars
Vice President
Corporate and Legal Affairs

Serge Régnier
Vice President
Human Resources
and Quality

Luc Sicotte
Vice President and
Chief Financial Officer

Gaz Métropolitain

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André Gougeon
President

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André Gougeon
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